

Moscow stance on Bosnia worries Nato

By Bruce Clark in London and Laura Silber in Belgrade

Nato is worried by Russia's cool reaction to its tough new procedures for carrying out air raids in Bosnia, according to western diplomats. Moscow's position is one of several factors that could cloud the prospects for further joint action by the contact group on Bosnia - the US, Britain, Russia, France and Germany.

Diplomats said Russian diplomats in Brussels had been briefed on the new air strikes policy as soon as it had been formally endorsed by Nato ambassadors last Friday.

Nato officials had tried to assure their Russian counterparts that the policy did not take away the "dual key" system under which any bombing raids in Bosnia have to be approved by the United Nations as well as Nato.

However, subsequent Russian comments - suggesting that Nato was grabbing more power for itself - indicated that these assurances were not accepted.

Apart from the air strikes policy, strains in the contact group have been highlighted by its members' contrasting reactions to the recent offensive by the Moslem-led Bosnian army. The offensive has been endorsed in Washington and criticised in Moscow, while British officials have avoided commenting either way.

Bosnian Serb forces claimed yesterday to have halted the government's offensive south of Bihać in northwestern Bosnia. UN officials reported intensifying mortar, machine-gun and artillery fire around Bihać, which is supposed to be a UN-protected safe area.

On Tuesday night, Mr Radovan Karadzic, Bosnian Serb leader, said the Moslems would be "trounced militarily". He blamed Belgrade for the biggest Serb setbacks since the fighting started 31 months ago.

President Slobodan Milosevic of Serbia imposed an embargo against Bosnian Serbs three months ago, and he is also trying to prod rebel Serbs from neighbouring Croatia into making a deal with Zagreb.

Mr Karadzic said the losses were "largely the consequence of the... blockade". Sources close to the leadership yesterday blamed the setbacks on "treasonable conduct by some Bosnian Serb officers dictated from Belgrade".

It was unclear whether Mr Karadzic's warning of a "fifth column" was aimed at high-ranking Bosnian Serb officers who, despite the embargo, still receive their pay from the Yugoslav army. He said that "anyone who spread rumours or lies about a Serbian sell-out would be shot".

South of Sarajevo, Bosnian Croats and Moslems co-ordinated an attack on the strategic plateau round Kupres, known as the "door to Bosnia". The Bosnian Croat entrance into the war casts a pall over peace talks set to resume today between Zagreb and rebel Serbs from Croatia.

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Cloud over Grachev after deputy is fired

By John Lloyd in Moscow

The future of General Pavel Grachev, Russia's defence minister, was in question yesterday following the sacking of his deputy, Gen Matvei Burlakov. His deputy was removed after allegations of corruption in the Western group of armed forces which he had commanded until September.

Mr Sergei Yushenkov, head of the state duma (lower house) defence committee, said the next logical step should be the resignation of Grachev. This would accord with the officer's code of dignity and would help the moral cleansing of the army.

President Boris Yeltsin's decision to fire Gen Burlakov "shows civilian control over the army exists and that the president is listening to press and public opinion".

Mr Yushenkov's remarks were underscored by Gen Alexander Lebed, commander of the Russian 14th army in the Moldovan province of Trans

Dniestr and the most popular figure in the forces - according to polls taken of officers.

He told the Itar-Tass news agency he welcomed Gen Burlakov's dismissal and said the sooner the army was cleansed of corruption "the stronger the army and the stronger the Russian state will be".

The army's top command is clearly in turmoil. Gen Grachev, appointed after playing a key role in felling the attempted putsch in 1991, has been close to Mr Yeltsin and may still have enough influence to survive. Ms Elena Agapova, an aide, said last night that the decree removing Gen Burlakov "came as no surprise... Gen Burlakov has repeatedly requested the defence minister to relieve him of his duties".

Mr Yuri Yerin, former military prosecutor for the Western group, said yesterday that Gen Grachev had been cleared of any corruption by "numerous" commissions and inquiries. The purchase with extra budgetary funds of two Mer-

cedes cars for his use was "not improper". However, Gen Grachev is not, and never has been, the defence establishment's favoured candidate for minister - and his alleged acquiescence in corruption is a serious weakness.

Communist and nationalist politicians have long demanded his resignation because he ordered his tank units to fire on the Russian parliament last October in obedience to Mr Yeltsin's requests. Now the reformist parties have deserted him following the murder of a young journalist three weeks ago who was investigating corruption in the Western group.

Though popular, Gen Lebed is regarded by the top brass as too inexperienced for the top job. Mr Yushenkov named as possible candidates army chief of staff General Mikhail Kolesnikov, former Soviet defence minister Marshal Vyacheslav Shumakov, and Gen Andrei Nikolayev, chief of the border guards which are not under Gen Grachev's control.



General Pavel Grachev, whose future as Russia's defence minister has been put in question

Poles read Russian anti-Nato signals

Christopher Bobinski on how Warsaw sees the postponement of Chernomyrdin's visit

across Poland as well as a mutual write-down of Comecon-era debts. The latter covered the \$2bn and 4bn transferable roubles owed by Poland and the \$300m and TRRs76bn Russian debt to Poland.

The debt deal is seen as a way of wiping the slate clean of past problems and paving the way for future trade growth.

Polish sales to Russia rose by 68 per cent to \$623m over the first eight months of this year but remain a mere 6 per cent of its total exports. In the communist era the Soviet Union took more than a third of Polish exports. Similarly, Polish imports, at \$850m, rose by 40 per cent above last year's levels but still account for only 6.5 per cent of total imports.

After this year's trade growth, Russia's share in Polish trade turnover has returned to 1992 levels, but that was

Ukraine, which has in the past threatened to block Russian gas sales to the west.

The pipeline, whose Polish section will cost \$2.5bn, will raise annual sales of Russian gas in Poland to 14bn cubic metres. Mr Chernomyrdin's visit was needed to sign a protocol confirming the commitment as well as to clarify financing arrangements.

The Russian ambassador also confirmed in his interview that Russia wants Warsaw to open a new crossing point on the Polish-Belarus border which would enable Russians to travel to and from their Kaliningrad enclave without going through the Baltic states.

Yesterday, Mr Andrzej Olechowski, Poland's foreign minister, said there could be no question of apologising for the incident at the railway station until the case had been thoroughly investigated. But the government is expected to come under pressure to conciliate Russia from local businessmen keen to see an expansion in bilateral trade.

Baltic neighbours feel chill from east

By Anthony Robinson

The chill in Polish-Russian relations symbolised by the last-minute postponement of prime minister Viktor Chernomyrdin's official visit to Warsaw this week may be part of a new hardening in Moscow's relations with its Baltic neighbours.

In London yesterday the Lithuanian prime minister, Mr Adolfas Slezevicius, said that his country is facing unexpected difficulties in its negotiations with Russia over a military transit agreement.

A law regulating the movement of Russian troops and

equipment through Lithuania, en route to and from the Russian Baltic province of Kaliningrad, was due to come into force in September. But Russian negotiators have objected to the troop transit rules being incorporated into a general law which also regulates the transport of hazardous materials across Lithuania. This Baltic state sandwiched between Poland and Belarus is on the most direct route from Russia to Kaliningrad.

Moscow, meanwhile, is seeking an alternative transit route to its isolated province which would avoid the Baltic states entirely and go through

Belarus and north-eastern Poland. This was to have been one of the subjects for discussion at the aborted Polish-Russian summit meeting.

Kaliningrad, the former German port city of Königsberg, and the surrounding province, was occupied by Soviet forces at the end of the war. Moscow has retained control, using it as a staging post for the repatriation of troops and equipment from former east Germany and Poland. Some 100,000 Russian troops are believed to be in the enclave. Lithuania, together with other Baltic basin states, is hoping to persuade Moscow to demil-

tarise both port and province over time.

Mr Slezevicius, a former minister under the Soviet-era government, and whose Democratic Labour party heavily defeated the nationalists led by Mr Vytautas Landsbergis in the 1992 elections, was in the UK to encourage greater trade and investment.

A priority project is construction of a \$100m (263.2m) oil pipeline from the port of Klaipeda to the refinery at Mazeikia to reduce dependence on Russian oil. Lithuania is also seeking \$150m to modernise the refinery whose 12m tonnes a year capacity is cur-

rently less than half used. Shell has just completed the first of a string of planned petrol service stations.

Last month the IMF approved a \$201m standby agreement loan in support of economic reforms which have led to rapid privatisation and a resumption of economic growth. In April Lithuania pegged the Litas, its internally convertible currency, to the US dollar. Inflation is expected to fall to 40 per cent this year from 189 per cent in 1993 and gross domestic product is expected to rise by 1.5 per cent in 1994 and by up to 6 per cent next year.

Ukrainians take wintery road to market

Matthew Kaminski finds despair in Kiev as economic reforms send prices soaring

At the Khreshatyk metro station in central Kiev, a new monthly transport pass was pasted behind a grimy window, with the price scribbled in pencil. "Today it's 175,000," a middle-aged woman laughed scornfully. Last month it was 20,000 coupons (about 20 US cents). "I don't know how we're going to live through this," she said.

Across Kiev this week, drastic price increases affected transport, rents, utilities and food, along with other retail goods under an IMF-tailored austerity programme unveiled by President Leonid Kuchma last month.

The price increases are the clearest indication yet that painful "shock therapy" market reform, which was pioneered by Poland five years ago and is already transforming the economy of much of eastern Europe, has finally made it to Ukraine. Earning an average monthly wage of around 23m coupons (about

\$23), Ukrainians are in for a painful passage into the market economy.

But if Kiev's leaders - emulating their neighbours in Warsaw, Prague and Tallinn - can ignore public grumbling long enough to put into place the remaining pieces of a comprehensive reform programme, their country could have a chance to join in the economic boom now taking off in the more progressive nations of eastern Europe.

This week's metro fare increase was accompanied by a drastic 10-fold rise in the price of trolley and tram tickets, and a seven-fold increase in rents, and utilities. Food prices varied across regions, but with state subsidies completely turned off they are also set to rise quickly.

The first wave of price increases is due to be followed by another on January 1. Ukrainian wages and pensions went up last month, but only to 80 per cent of expected price

increases. "It's impossible to live on our salaries," said Mrs Olga Stepanovich, a teacher who shops at the popular Vladimirsky market. "Only a businessman can afford tomatoes for 150,000 coupons per kilogram. So most people just do not eat well."

Ukraine's social fabric is already stretched thin. The country has Europe's lowest minimum wage and highest hidden unemployment rate.

The average real wage is down 70 per cent since 1990. However, many supplement their incomes in the black economy which, by one count, makes up 60 per cent of economic activity.

However, as in Poland during "shock therapy", people expect to improvise and survive. "It's hard but we get by," said Mrs Valentina Mykhailovych, a pensioner, standing outside a state bread store on Karl Marx Street. "My son has a dacha outside Kiev where he

grows vegetables. So my husband and I get fresh potatoes and carrots."

Factories have been hit hard, with higher oil and coal prices and an inability to acquire cheap dollars to import energy. Many enterprises are expected to close and lay off workers. State spending cuts also are needed to reduce Ukraine's large budget deficit. Reformers hope the pain will be brief - and checked by high interest rates to stop inflation. They are also relying on foreign capital being lured back as the currency stabilises and supplies of Russian and Turkish energy are guaranteed - bought with western aid such as the \$371m IMF loan approved last week.

But Mr Kuchma recognises the public disquiet. "To my great regret, ordinary people will not be affected by the arrival of this small amount [the IMF loan]," he said. "That is why I appeal to our people to have more patience." The pres-

ident also knows western donors, sitting on up to \$4bn in aid, have little patience. Ukraine must implement the first radical macroeconomic reforms in the next nine weeks to qualify for further IMF aid. Talks on a \$1.5bn standby begin later this month.

But the political opposition is gathering steam, too. Parliament, dominated by a communist coalition, called an emergency session for tomorrow to discuss the price rises. Organised labour, quiet since last year's coal strikes, this week threatened to walk out in protest against price increases and low, or often unpaid, wages.

Mr Kuchma yesterday succeeded in convincing municipal leaders to implement broad price increases in all regions after widespread resistance to implementing his decrees.

At the Karl Marx bread store, the night delivery man shrugged his shoulders as he unloaded the daily rye. "Sadly, all these changes are needed."

EUROPEAN NEWS DIGEST

Czech official on graft charge

A senior Czech privatisation official has been arrested in a "sting" operation by anti-corruption police. Mr Jaroslav Lizner, chairman of the Centre for Coupon Privatisation, which processes applications from investors seeking to buy stakes in state companies, was arrested outside a Prague restaurant on Monday night carrying a briefcase containing Kč8.3m (\$305,000). He is to be charged with accepting bribes. Three others were arrested and later released. Mr Lizner's arrest has reopened allegations of high-level corruption in the Czech Republic's privatisation programme, which has seen billions of dollars of state assets sold to private investors. A privatisation ministry official is in prison after being convicted of bribery in connection with a privatisation deal. Mr Vaclav Klaus, the Czech prime minister, described Mr Lizner's arrest yesterday as "a bolt from the blue" but denied that it would have a negative impact on the privatisation programme, due to be completed early next year. Vincent Boland, Prague

German holiday ruling

Germany's federal cartel office yesterday recommended that two of the country's largest holiday agencies be prevented from having the exclusive right to block book rooms in 15 Spanish hotels because it hinders competition. Touristic Union International (TUI) and NUR Touristik said they would fight the decision. The cartel office's recommendations follow complaints by other German travel agencies that TUI and NUR had stifled competition in the Canary and Balearic Islands last year by block-booking hotel beds for almost the entire season. Allotours, a German-based agency, said it had been impossible to reserve rooms even in other hotels because of the prices offered by TUI and NUR, which they claimed were beyond what it could offer. The cartel office recommendation coincides with a surge of renewed German interest in Spain, and in the islands particularly. This is because tens of thousands of holiday-makers switched their vacations from Turkey, a favoured resort, after attacks on Germans in the region. Judy Dempsey, Bonn

Strike grounds Iberia flights

Iberia, Spain's financially crippled state airline, has been forced to ground most of its flights today as unions stage the first of two 24-hour strikes this month. The unions are objecting to the company's refusal to make up back pay that was due at the end of October and to its plans to reduce salaries by an average of 15 per cent over the next two years. The airline cancelled all its international flights serving routes that are covered by other airlines, as well as 70 per cent of its domestic flights. Iberia is on course to lose Pt44bn (\$352m) this year. The industrial dispute could delay its efforts to gain European Union authorisation for fresh public funding of at least Pt125bn. Unions say Pt2000m will be required to assure future viability. A second strike is planned on November 11. Tom Burns, Madrid

East German jobs warning

Between a quarter and a third of east Germany's labour force will be without permanent work by 2010 unless productivity and competitiveness improve sharply. The east German economy will have to become much more export-oriented to create new jobs, concludes a joint study by the Halle Institute for Research and the Hamburg-based Körber Foundation. The study contradicts more optimistic forecasts released last week by the six economic institutes which advise the federal government. These showed that unemployment in east Germany had fallen to about 15 per cent of the 6.8m-strong labour force and should stabilise at that level. However, the Halle-Körber study says this figure could rise if the privatised sector in particular is not supported by more risk capital. The report says productivity is still only 40 per cent of west German levels. Judy Dempsey, Bonn

Slower growth for Norway

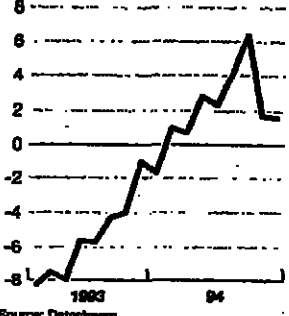
Norway's economy will expand more slowly next year, according to Mr Torstein Moland, governor of the Bank of Norway. At a seminar in London yesterday Mr Moland forecast GDP growth in 1995 would fall to between 2.5 and 3.0 per cent, as growth in consumption became more subdued. The rise in consumer prices was down to 0.9 per cent in April but has since grown to 1.7 per cent, reflecting an increase in excise duties implemented in July. Mr Moland said that if wage inflation could be limited to 3.0 per cent in 1994 and 1995, overall inflation would remain at 2.0 per cent next year. Traditional exports, excluding oil and shipping, have risen in value terms by 12 per cent this year, according to Mr Moland. The improvement in the economy has reduced Norway's vulnerability to oil price fluctuations and the current account would remain in balance next year, he said. Karen Fosk, Oslo

ECONOMIC WATCH

Industrial output on the rise

Western Germany

Industrial production, annual % change



Source: Datastream

West German industrial production gathered pace again in September after falling during August, according to provisional data from the economics ministry.

Although preliminary calculations showed output fell a seasonally adjusted 0.2 per cent during the month, after a revised 2.6 per cent month-on-month drop in August, the ministry said it expected the latest figures to be revised upwards by "a good two percentage points". This implied production increased by more than 3 per cent in comparison with September last year.

According to independent analysts, James Capel in London said gross domestic product in the region appeared to have grown only 0.6 per cent in the third quarter after 1 per cent in the second. However, other data on business confidence and economic developments in export markets elsewhere in Europe suggested the apparent weakening was merely a lull within a strong underlying growth trend. Christopher Parkes, Frankfurt

The Greek unemployment rate was 6.1 per cent in September against 6.7 per cent the previous month and 5.9 per cent a year earlier.

Romania's trade surplus fell to \$75.9m in September from \$82.6m in August. Unemployment rose to 10.8 per cent.

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Dutch to cut 3,000 jobs in telecoms

By Ronald van de Krol
in Amsterdam

The Dutch telecommunications and postal group, KPN, said yesterday it is to cut 3,000 jobs over the next three years in its telecommunications business. It is the first round of job losses since the company was partially floated on the Amsterdam stock exchange in June.

PTT Telecom, KPN's telecommunications arm, said the job losses, representing nearly 10 per cent of its workforce of 31,981 people, were necessary to boost productivity.

It hopes to be able to shed most of the jobs through natural attrition, avoiding the need for large and potentially controversial forced redundancies. "Increasing productivity is necessary if the company wants to continue delivering high-quality services at low prices in a fully deregulated telecommunications market," PTT Telecom said.

The job losses should boost productivity, measured by the number of telephone lines per employee, by 15 to 20 per cent by the end of 1997. By pursuing this goal, PTT Telecom said it wants to emulate the "Baby

Bell" telephone companies in the US, which have achieved an average 6 per cent annual improvement in productivity over the past few years.

The telecommunications subsidiary said the job losses were a continuation of restructuring begun in 1990.

PTT Post, KPN's postal company, has cut around 6,000 jobs since 1990 and now employs around 38,411 people. KPN is the Netherlands' largest private-sector company.

The job losses in telecommunications will come across the board but will concentrate specifically on employees in telecommunications maintenance. Digitalisation of the Dutch telecommunications network means that fewer people are needed for maintenance work.

However, PTT Telecom said it expects to hire additional employees in future in "customer-contact" jobs such as sales and marketing, as well as in mobile communications and new media.

The Dutch state's sale of a 30 per cent stake in KPN was the country's largest ever flotation, raising Fl.6.5bn (£2.5bn) for the government. A second tranche of shares is scheduled to be sold by the end of 1997.

Italians protest against state TV changes

By Robert Graham in Rome

A chorus of protest has greeted the reorganisation of the editorial management of the RAI, Italy's state broadcasting organisation, carried out by the appointees of the government of Mr Silvio Berlusconi.

A group of prominent intellectuals and broadcasters have petitioned President Oscar Luigi Scalfaro to intervene over what they claim are curbs on the freedom of expression.

The opposition, headed by the former communist Party of the Democratic Left (PDS), has protested that the government has tightened its hold on information, and unions working at the RAI have threatened to take court action against the management.

One of the new board members, Mr Alfio Marchini, personally endorsed by the speaker of the chamber of deputies in the Italian parliament, has also resigned in protest.

The reorganisation, completed on Tuesday, came almost 45 days after the first editorial changes were introduced and involved the removal of some personnel only recently appointed.

Government supporters have justified the appointments and the overt political interference on the grounds that the RAI has always been politically controlled. The appointments involve programme controllers and channel director generals for the RAI's three TV channels.

The populist Northern League, usually an opponent of its coalition colleagues on media matters, has been noticeably silent over the past 24 hours, not least because some of its appointees have gained a foothold and the third television channel will have a federal/regional framework.

The complaints follow three main lines. The first is that the right-wing coalition government has deliberately placed its own sympathisers in the key positions, regardless of individual professional qualifications. The neo-fascist MSI/National Alliance has done well in securing a substantial foothold; but at the same time a number of persons once identified with Socialist leader Bettino Craxi and recycled as Forza Italia are back in power.

A second line of complaint is that the financially troubled RAI risks being seriously weakened by the changes so aiding the competition - the three television channels of prime minister Berlusconi's Fininvest. This in turn raises the running sore of Mr Berlusconi's conflict of interest.

The third issue concerns the absence of any independent control over state-run television. The management board is headed by Mrs Letizia Moratti, a prominent stockbroker brought in by the government. The board in turn is monitored by the parliamentary media committee that is dominated by the governing coalition.

Balladur suffers political setback but underlying employment trend is good

French jobless reaches record high

By Andrew Jack in Paris

French unemployment levels for September jumped to a record high of 3.35m, 12.7 per cent of the labour force, according to government statistics released yesterday.

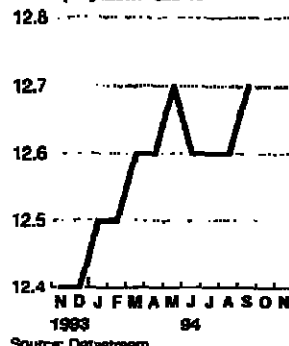
The figures were disappointing news for the conservative government of the prime minister, Mr Edouard Balladur, whose undeclared presidential ambitions rest on his ability to prove he can bring down unemployment, the main concern of French voters.

However, economists noted that the poor figures disguised an improving underlying trend, and said there was no question but that unemployment would be on an overall downward path in the run-up to next April's presidential election.

The government did its best to play down the significance

France

Unemployment rate %



of the rise, although some commentators expressed concern at the high rate at a time of economic recovery within the country.

The seasonally-adjusted number of people seeking work rose by 13,900 people or 0.4 per cent to 3,351,900 during the

month, following an increase of 0.5 per cent in the August.

Mr Michel Graud, the minister of labour, said the increase reflected a number of people joining the workforce for the first time who were inspired to apply for jobs because they perceived the economy to be recovering.

He said that much of the rise was because of women entering the workforce.

Mr Graud said the government was sticking to its forecast that unemployment would stabilise at the end of the 1994 and fall in 1995, a view that economists said they still believed.

However, the rise was criticised in the French parliament by Mr Martin Malvy, the leader of the socialist group, who said it showed "the bankruptcy of the solutions put in place by the government".

Mr Malvy said the jobless fig-

ures cast doubt on Mr Balladur's ability to deliver on a target of cutting 1m from the jobless roll in the next few years and 200,000 in 1995 alone. "How can one, in these conditions have the slightest faith in the promises of Mr Balladur as a candidate (for president)," he said.

Reactions to the figures from analysts were mixed yesterday. Mr Gwynn Hache, a European economist for James Capel, said: "This is a bit disappointing. We had expected unemployment to remain unchanged but this is a new record."

He said it was surprising to see the increase at a time when there was strong economic recovery in France above the levels in much of the rest of Europe, and reflected an underlying high level of structural unemployment in the country.

Mr Hache said there was a

"worrying trend" of structural unemployment "ratcheting up" after each recession in France, aided by a minimum wage and a generous social security system.

"The government must be finding it increasingly difficult to find new schemes especially for the young unemployed," he said. "The budget deficit means they cannot embark on general reflation and it may favour Mr Jacques Chirac who has called for more domestic action to tackle joblessness."

However, Ms Esther Baroudy, senior economist at Crédit Lyonnais, said: "It looks like things are going the government's way."

"The trend is really improving. We are seeing a stabilisation rather than any dramatic increase. What influences consumer confidence is the rate of change, not the absolute numbers."

Swedish fiscal package targets debt

By Christopher Brown-Humes
in Stockholm

Sweden's Social Democratic government yesterday promised new measures to stabilise the country's fast-growing debt, saying the moves would reduce the country's budget deficit and bring down interest rates.

In a fiscal package announced yesterday, the government included SKr31.6bn (£2.7bn) in tax increases and SKr25.5bn in spending cuts, SKr6bn more than the SKr51bn "budget strengthening" total outlined by the party in the run-up to the September election which brought it to power.

A further SKr20bn of unspecified new measures, mainly spending cuts, will be presented in Sweden's January

budget. Mr Göran Persson, the finance minister, said the proposals should be sufficient to enable Sweden to stabilise central government debt by 1998 or even earlier.

But the markets took a more sceptical view and some commentators suggested further savings would be needed. Bond yields rose a few basis points.

The package was denounced by Mr Carl Bildt, leader of the opposition Moderate party, who called it "the biggest tax increase in Swedish modern history" and a return to the "failed" Social Democratic policies of the past.

The Federation of Swedish Industries regretted the emphasis on tax increases and the delay in implementing badly needed savings. The size of Sweden's

budget deficit, projected at 13 per cent of gross domestic product in the current financial year, and the growth in state debt are the main symptoms of the country's financial crisis. The difficulties have led Moody's, the US rating agency, to consider downgrading Sweden's debt rating.

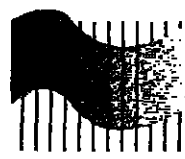
The minority Social Democratic government hopes to get the SKr57.1bn package through parliament with the support of the former communist Left party.

The government forecast GDP growth of 2.5 per cent in 1994, rising to 3.4 per cent next year. This is a more optimistic view of the outlook than most independent commentators have taken. Inflation is forecast at 3.0 per cent next year while unemployment,

excluding those on training schemes, is expected to fall to 6.9 per cent from 8.0 per cent in 1994.

Mr Lars Heikensten, chief economist at Svenska Handelsbanken, said the government could not have risked more drastic measures yesterday in the run-up to Sweden's referendum on EU membership on November 13. But he believed the government was "taking a risk" by not proposing tougher measures in January.

Mr Persson urged Swedes to vote Yes to EU membership, warning that the economic costs of staying outside were greater than those of joining. Membership would cost Sweden around SKr20bn a year, but he said this would largely be funded by the groups which would most benefit from membership.



Finland Investor Conference

Finland Investor Conference will be held in London on November 10th, organized by Finnish Stockbrokers Association in collaboration with the Finnish Ministry of Trade and Industry.

THE THEME FOR THE CONFERENCE

is the presentation of the Finnish state-owned companies to investors on international capital markets. The event offers the delegates the opportunity to hear the views of the Ministry of Trade and Industry (Mr Matti Vuorio, Secretary General) as the majority owner of the state-owned companies. A current macroeconomic review (Mr Pentti Varti, Managing Director, Institute for Economic Research) will give background for the presentations of the participating state-owned companies that all represent different branches of the Finnish economy. The opening ceremony will be given by Mr. Juhani Erma, President, CEO, Helsinki Stock Exchange.

COMPANIES TO BE PRESENTED:



ENSO-GUTZIT OY

Enso is one of Europe's leading forest industry groups. Its operations are focused principally on three sectors: liquid and food packaging boards and graphic boards, publication papers, and fine papers. Enso is also Europe's largest producer of sawn timber. In 1993 Enso's net sales were £1,685 million and the balance sheet total was £3,590 million.

The presentation will be given by Mr. Esko Mäkelä, Senior Vice President.



FINNAIR

Finair, the national airline of Finland has focused on top quality service in selected niche markets. Helsinki, the main hub of Finair, is an ideal gateway for connections on many intercontinental flights and to the emerging markets in Russia and the Baltic States. In the financial year 1993/94 the Group's turnover amounted to £726 million and the consolidated balance sheet totalled £838 million.

The presentation will be given by Mr. Pentti Pentti, Group Treasurer.



IVO GROUP

IVO is a leading Finnish energy group which operates in the domestic and international energy markets. The Group supplies power and heat and offers a wide range of services relating to energy systems and power transmission. In 1993 IVO's net sales were £870 million and the balance sheet total was £2,070 million.

The presentation will be given by Mr. Kalevi Numminen, President and CEO.



KEMIRA

Kemira is an international chemical group whose main products are water treatment chemicals, pulp and paper chemicals, titanium dioxide pigments, paints and plant nutrients. In 1993 Kemira's net sales were £1,527 million and the balance sheet total was £2,024 million.

The presentation will be given by Mr. Heimo Karinen, Chairman and CEO.



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A year of divided loyalties



US MID-TERM ELECTIONS November 8

This is the season of falling leaves, struggling candidates and the frantic search for political endorsements. Rarely, however, have there been quite so many striking endorsements which depart from political norms. The big questions are whether this year's batch will make a difference in key races, the extent to which they have been dictated by local circumstances and candidates and, since the majority of endorsements have been of Democrats by prominent moderate Republicans, if there is a revolt brewing against the opposition's dominant right-wing.

Mr Ross Perot, who admits to no party allegiance, joined the parade on Tuesday by coming out for Ms Ann Richards, the Democratic governor of Texas whose re-election struggle against Mr George W Bush Jr, son of the former president, is too close to call.

The immediate interpretation of the Texas billionaire's endorsement is that it was a further manifestation of his animus for the Bush family so evident in the 1992 presidential election and since exacerbated by some acid comments in Mrs Barbara Bush's memoirs.

Mr Perot, whose political organisation, United We Stand, has not been a coherent force this election year, has generally urged a vote for Republi-

cans in the November 8 mid-term elections and most of his supporters are identified with conservative positions. So he will spend this weekend campaigning in Washington state for the opponent of Mr Tom Foley, Democratic Speaker of the House. But he has also endorsed the re-election of Mr Roy Rohmer, the Democratic governor of Colorado.

Other endorsements to catch the eye include the Republican mayors of New York and Los Angeles backing the Democratic candidates for governor and the Senate respectively, though, in California, Mayor Richard Riordan also came out

of the fact that Governor Wilson has made support for the initiative a centrepiece of his campaign.

Opposition to hard-right candidates has also surfaced from well-known local Republicans in Minnesota, Michigan, Pennsylvania and Iowa. But a contrary trend is observed in some newspaper editorials, with the Washington Post and the Los Angeles Times, both generally liberal in outlook, coming out, respectively, for Republicans as mayor of the nation's capital and for governor of California.

Conservative candidates have also been endorsed by

California, where she is weakest. Governor Wilson now holds a solid lead over Ms Kathleen Brown, even though support for the anti-immigrant proposition, still likely to pass, has been falling.

Both mayors argued the toss that Mr Huffington and Mr Pataki, if elected, could not be relied on to help their cities. Mr Giuliani was also motivated by dislike of Senator Al D'Amato, the New York Republican who is Mr Pataki's patron.

A Texas poll yesterday gave Governor Richards a small three-point lead over Mr Bush, but it was taken before Mr Perot's endorsement. In Virginia, diehard supporters of Mr North, in a virtual dead heat with Senator Charles Robb, seem impervious to advice from Republican grandees. In Michigan, Governor John Engler is on a cakewalk to re-election.

In Washington, DC, few think the Post's endorsement of Mrs Carol Schwartz can prevent the return to city hall of Mr Marion Barry, a prospect which so horrifies residents of the city's only predominantly white ward that a semi-serious movement has been launched to secede to Maryland.

More broadly, Democrats have taken some heart from Republican ideological divisions, with President Bill Clinton himself doing his best this week to play them up in the company of Democratic candidates who once spurned him. But, mostly, it is the Democrats who are on the defensive and the Republicans who are more likely to vote.

Rarely have there been quite so many endorsements departing from political norms, writes Jurek Martin

for Governor Pete Wilson, the Republican incumbent.

Virginia has seen the most conspicuous variation on the theme with Republican stalwarts from the Reagan and Bush administrations, joined by Mrs Nancy Reagan, condemning Mr Oliver North, the Republican Senate candidate.

The conspicuous exception has been Mr James Baker, former secretary of the treasury and state departments, who may be eyeing a presidential run of his own in 1996.

Mr Jack Kemp and Mr Bill Bennett, cabinet secretaries under President Bush, came out sharply against the Californian proposition that would deny social services to illegal immigrants. This was in spite

powerful lobbies. The National Rifle Association, for example, is seeking its revenge on those in Congress who supported gun control.

The impact of endorsements has been varied. Mayor Rudolph Giuliani's backing seems to have helped turn New York Governor Mario Cuomo's campaign around. When it came early last week, he was behind Mr George Pataki, the Republican, but polls out in the last 24 hours put him 12-13 points ahead.

There is no polling measure yet of Mr Riordan's Sunday support for Senator Dianne Feinstein, holding a slim lead over Congressman Michael Huffington, but it certainly cannot harm her in southern

US economy continues to expand

All regions of the US are continuing to expand, and higher prices are starting to work their way into the economy, the Federal Reserve said in its "beige book" survey of economic conditions, writes George Graham in Washington.

The beige book, which is released two weeks before each meeting of the Federal Open Markets Committee, which sets Fed interest rate policy, said consumer spending remained strong and labour markets are tight or tightening in most of the country's 12 Federal Reserve districts, though only in specific sectors.

The latest report was prepared by the Dallas Federal Reserve Bank and will be used at the November 15 FOMC meeting,

at which the Fed is widely expected to raise interest rates by at least half a percentage point.

The Fed said there was little rise in retail prices, but "pressure is building in some districts." The Commerce Department's index of leading economic indicators, however, was flat in September, despite a sharp rise in building activity that had been expected to drive the index higher. The department said yesterday the index was unchanged at 102.3 in September, after rising 0.5 in August, with weaker orders for consumer goods helping to offset the jump in building permits announced last month.

Separately, the Commerce Department

said that new orders for manufactured goods decreased by 0.2 per cent in September. While orders for durable goods increased by 0.4 per cent, non-durable orders dropped by 0.8 per cent, their first decline for almost a year. Shipments of manufactured goods fell by 0.6 per cent in September, after rising 4.6 per cent in August; inventories dropped 0.2 per cent.

The index of leading economic indicators is compiled from eleven statistics and is intended to signal turning points in the economic cycle six to nine months before they occur. The Commerce Department said six of the eleven components pushed the index higher in September, while four pushed it lower, with one unchanged.



MIXED SUCCESS FOR SOTHEBY'S CONTEMPORARY ART SALE



Sotheby's sale of contemporary works of art in New York on Tuesday night well illustrated the current state of the world art market: buyers were willing to pay reasonable prices for the best paintings but there was no interest at all in the second rate, writes Antony Thornicroft.

The auction totalled \$12.145m (£7.48m) but 40 per cent of the 66 lots were unsold. One of the icons of "Pop" art, Roy Lichtenstein's "I...I'm Sorry" (pictured above), showing a comic strip blonde shedding a tear, complete with balloon caption, sold, on estimate, for \$2.47m to the Californian collector Eli Broad.

"Pop" art has been the main casualty in the collapse of the contemporary market since 1990 and this was a reassuring price. There was an artist record in the \$805,500 paid for Ellsworth Kelly's "Green, Red, Yellow, Blue", four panels of

those colours. Estimates and reserves had been kept low but judging by the results even more caution will be needed next time.

There were encouraging signs. "Let us now praise famous men," a silkscreen by Andy Warhol based on portraits of the artist Richard Bauschenberg and his family, was fought over by seven bidders and eventually went for \$1.058m, ahead of estimate, while a drawing by de Kooning, "Monumental Woman," which the artist gave to the late Harold Rosenberg, art critic of The New Yorker, on his birthday in 1954, also beat its forecast, making \$695,500.

Its provenance made it desirable, as did the eight paintings sold by the New York publisher S.L. Newhouse, seven of which found buyers.

However, the failure was the most important lot, "Untitled," by Cy Twombly, which was expected to make around \$1m.

IMF, World Bank begin talks in Haiti this week

By Canute James in Kingston

A team from the International Monetary Fund and the World Bank will begin a visit to Haiti at the end of this week for talks which will mark the start of international efforts to rebuild an economy embled by decades of dictatorial rule and three years of economic sanctions.

Mr Jean-Bertrand Aristide, Haiti's president who was reinstated last month after three years in exile, has indicated he is willing to implement a range of sweeping reforms to breathe life into the economy. Mr Suresh Michel, the prime minister nominated by Mr Aristide, is also reported to back the reforms. However, even among Mr Aristide's closest supporters, there is a view that the changes proposed are too radical and their unpopularity could disrupt the government's other work.

The mission will be led by the head of the Inter-American Development Bank, Mr Enrique Iglesias, and include officials from the World Bank and the UN.

The framework for the economic programme, which will not be completed in the remaining 15 months of President Aristide's term, was agreed by a group of donor countries and Mr Aristide's government-in-exile this year.

It proposes extensive deregulation of the economy, the divestment of state enterprises to local and foreign investors and tariff reform. The bureaucracy is to be trimmed and institutions, such as the judiciary and police, rebuilt.

Of the \$770m needed for the programme over the next 15 months, World Bank officials said yesterday \$30m will be required to clear arrears to foreign creditors. This will open the door to further bilateral and multilateral financial assistance.

Political calm should also elicit an increase in two other sources of finance - funds for charities working in the country and remittances from Haitians overseas.

Many Haitian businessmen believe the programme offers the best chance for economic revival. They say assembly industries (garments, electrical appliances, baseballs - all for the US market) will theoretically be easy to restart if stability is maintained. But some US suppliers may be less enthusiastic to renew contracts for the assembled products because of concerns about longer-term political stability. Furthermore, the US reimposed quotas recently on Haitian clothing imports.

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WORLD TRADE NEWS DIGEST

Lomé 'will not survive century'

The Lomé convention, the treaty under which the European Union grants trade and aid concessions to the former European colonies, will not survive the century in its current exclusive form, a senior EU official said yesterday.

Mr Peter Pooley, director-general of the development directorate, said in London: "I don't see Lomé lasting as an exclusive club beyond the end of the century." The EU this year began to negotiate the fifth Lomé accord with developing country governments, but he said: "If there is a Lomé V, it will be a more generalised one." There was no reason to exclude such countries as Bangladesh from the convention, he said.

A new accord would also seek to differentiate between countries of different development levels, and differentiate one region from another, he said. Lomé IV was agreed as the Berlin Wall was falling, but failed to take account of the consequences. *Stephen Fidler, Latin America Editor*

Union Carbide files appeal

US chemicals company Union Carbide has filed an appeal to the European Court of Justice over the European Commission's approval of a \$3bn (£1.5bn) plastics joint venture between Royal Dutch/Shell group and Italy's Montedison. Union Carbide said in its present form the proposed venture threatened competition in polypropylene manufacturing.

The Commission gave its go-ahead to the deal in June in spite of the fact that Shell and Montedison have at least partial control of the two main polypropylene manufacturing methods. *Daniel Green, London*

Australia/NZ aviation talks

Mr Laurie Brereton, Australia's transport minister, yesterday said he would meet his New Zealand counterpart, Mr Maurice Williamson, next week to discuss an aviation dispute between the two countries. Mr Brereton also stressed that a memorandum of understanding, which would have allowed Air New Zealand to fly domestic Australian routes from November 1, had not been cancelled.

A row erupted last week when the Australian government announced unilaterally that it was "freezing" the memorandum for an unspecified period on the grounds that some of the conditions had not been fully complied with. This prompted speculation that the Australian government was trying to protect the flotation of its 75 per cent interest in Qantas, due next year. *Nikki Tait, Sydney*

Contracts and ventures

■ SNC-Lavalin, Canada's biggest engineering consultants, is to modernise and upgrade the Volgograd oil refinery for Lukoil, Russia's biggest integrated oil company. The project will cost \$400m and is due for completion in late 1998. The refinery's capacity is about 200,000 barrels daily. SNC-Lavalin will provide engineering services, procurement, project management and start-up services using a Russian engineering firm as sub-contractor. *Robert Gibbons, Montreal*

■ Siemens has won a DM150m (\$100m) contract for the expansion of a pumped-storage water power plant in Guangdong province, China. The plant will be one of the largest of its kind in the world, with a total output of 2,400MW. *Reuter, Munich*

■ Toshiba Corporation has announced an agreement to license advanced semiconductor-related technology to Chartered Semiconductor Manufacturing of Singapore. *Michiko Nakamoto, Tokyo*

India seeks private capital for toll roads

By Stefan Wagstyl
in New Delhi

India is turning to private investors in an attempt to give a huge boost to developing its primitive road network.

The government is issuing letters of intent worth \$50m for the construction of three private sector-operated toll roads and one bridge - a first step towards attracting private capital into an industry long dominated by the state.

The four schemes are among about 30 projects totalling over \$6bn, including \$5.8bn worth of

motorways, earmarked by the ministry for surface transport for possible private sector development. Companies would build roads and bridges, collect tolls to recoup their investment for a fixed period and then transfer ownership to the state.

The ministry's plans are an extension of the government's efforts to liberalise the economy and to expand India's infrastructure after years of underinvestment.

Officials say 42 companies have expressed interest in build-operate-transfer schemes,

including Renong, Malaysia's largest business group, which has suggested investing up to \$25bn building a 12,000 kilometre national motorway network. Other interest has come from US, European, and Asian companies. Mr Rajeev Talwar, a senior transport ministry official, said: "The amounts of money we need to invest are immense. But we have had an overwhelming response from private industry."

The projects include a letter of intent with Costain, the British construction group, to build a \$15m bridge across the

Narmada river on the west coast of India along a trunk road linking Bombay with the fast-growing state of Gujarat. The other three schemes covered by the letters of intent are for by-passes at Nellore, in Andhra Pradesh, Coimbatore, in Tamil Nadu, and Hubli-Dharwad, in Karnataka. The Nellore project has been awarded to HSSL of Malaysia, and an Indian partner, and the other two projects to SPIC, a diversified south Indian group. Companies say negotiating contract terms could take some time since privately operated

roads and bridges are a novelty. The biggest problem will be ensuring that rules governing toll-collection are free from future political interference. This may prove difficult in a country where many people have come to expect that public services, including transport, cost little or nothing. Simply ensuring that travellers do not ignore toll booths will be a challenge.

Also, even though Mr Jagdish Tytler, the transport minister, and his senior officials are enthusiastic about private investment, some officials are

dragging their feet. Parliament last year authorised private investment in roads, but the ministry has yet to publish a new highways policy incorporating the change.

Meanwhile, the ministry is also trying to attract private investment in ports. Private companies are working on schemes worth \$300m to install privately operated terminals, container bays, berths and storage areas. Projects worth a further \$4bn are under consideration, including a \$500m chemicals terminal in Bombay and a \$600m harbour in Goa.

US in new open skies gambit

By George Graham
in Washington

The US transportation department plans to sidestep the larger European countries in its quest to open up the skies for US airlines by starting negotiations with nine smaller European nations.

Mr Federico Peña, the transportation secretary, said the US plans to build on the open skies treaty already signed with the Netherlands, and hopes to conclude agreements in the next few months.

US officials refused to say which countries would be involved in the negotiations, but they are all smaller nations in western Europe, including some members of the European Union. France, Germany, Italy and the UK are not involved. Aviation experts said the list was likely to include Switzerland, Austria, Denmark, Sweden and Norway, and probably Iceland, Ireland, Belgium and Luxembourg.

The US is deadlocked in aviation negotiations with the UK and France, and the new policy appears to abandon the attempt, urged by some big US airlines, to seek a global open skies agreement.

In May, Mr Peña said that the current system of bilateral treaties which regulate international air transport was "designed to limit, not to foster, competition, and inhibits

or distorts globalisation".

But in a draft policy statement issued for comment this week, the department said it would concentrate on open skies agreements with "a group of countries that share our liberalisation vision and offer important flow traffic potential for our carriers," while renewing efforts to achieve more liberal agreements with larger partners such as Canada and the UK.

Mr Jeffrey Shane, a lawyer with Wilmer, Cutler & Pickering in Washington and former head of aviation policy in the Bush administration, said the Clinton administration had found "some way of advancing the ball", as there appeared to be no one ready to sit on the other side of the table for multilateral talks.

"Notwithstanding the fact that we are talking about smaller countries, which will not on the surface provide great access opportunities for US carriers, by talking about a cluster of nine of them it will certainly shake things up," Mr Shane said.

The Netherlands agreement has already brought dividends by paving the way for approval of a co-operation agreement between KLM, the Dutch airline, and Northwest Airlines. Government approval of a similar arrangement between British Airways and USAir was much more conditional.

Market to get one's teeth into Taiwan's Gatt quest puts betel-nuts on agenda, writes Laura Tyson

Taiwan's quest to become a signatory to the General Agreement on Tariffs and Trade has invited demands by its trading partners that it first open its relatively closed economy to more cars, beef, fruit, fish and, of course, rice. No one has yet mentioned betel-nuts.

Yet Taiwan's market for this mild stimulant, chewed in many countries throughout east and south-east Asia, is believed to be worth more than that for rice. And as with rice, imports are banned.

Indeed, the Taiwanese appetite for betel-nut has led to environmental, health and even criminal problems in small, crowded Taiwan as farmers across much of the island have converted paddy fields into betel-nut groves. Of 21m Taiwanese, some 2.5m chew the nut, whose total street value is estimated at US\$2bn (£1.2bn) a year.

"It's much more profitable than rice, and cheap and easy to grow - no hard work, no fertilizer," says Mr Antonio Chiang, publisher of The Journalist, Taiwan's leading weekly political magazine.

It was Mr Chiang who coined the now widely used appellation "Taiwanese chewing gum" for the much-maligned betel-nut, called *binglang* in Chinese, some 10 years ago. His family grows betel-nut in their paddy fields near Taichung in central Taiwan.

"If you drive a truck, you

must chew *binglang*... the only alternative is amphetamines," says Mr Chiang. "But *binglang* is much better, because amphetamines are stronger and addictive."

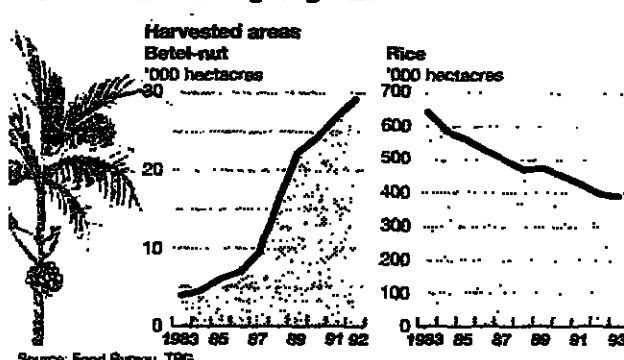
The market for betel-nut has grown in the last decade and now rivals rice, which has declined in importance, as Taiwan's biggest cash crop. In 1993, the total value of betel-nut production sold by farmers was T\$10.3bn (\$395m), compared with T\$40.5bn for rice, according to official figures. But officials concede that those figures may be misleading, not only because it is difficult to monitor betel plantings.

"If you take the farm price, then rice is a bigger market. But the street value of betel-nuts is much higher than rice because of the huge mark-up," says Mr Tai Teh-fang, a researcher in the economics and planning department of the agriculture ministry.

Betel-nut chewing has become increasingly popular in recent years, in part due to rising income but also because it is seen as an emblem of ethnic Taiwanese consciousness. Chinese who came to the island from mainland China in 1949 as a rule do not chew.

Mr Wu Hui-lung, chief of the soil conservation division in Taiwan's agriculture ministry, says: "Because the price of betel-nut is getting higher and higher, farmers are now illegally cutting down forest to grow betel-palms. On the flat

Taiwan: betel-nuts gain ground



land there is no problem, but in the mountain areas it is causing severe erosion and problems for water conservation."

Officials say farmers could earn at least US\$25,000 a hectare each year from betel-palm plantings, far more than US\$2,000 a hectare for rice. "Those betel-nut farmers are very rich," says Mr Tai from the agriculture ministry. "Some of them even drive Mercedes-Benzes."

The country's health authorities are concerned about the medical effects of betel chewing which include a high incidence of oral cancer. The government is also worried about gangster control of the whole-sale industry, smuggling and road-side betel-nut stands that have proliferated across the island.

Mr Wu says the ministry is

studying the possibility of legalising betel-nut imports to reduce the economic benefit to farmers in the hopes of stemming cultivation, but no decision has yet been made. Such imports have been banned by the ruling Nationalist government for more than four decades but in recent years smuggling from Thailand, the Philippines and China has become rampant.

Mr Lan Min-chuan, a trade specialist in the agriculture ministry's economics and planning department, says that in any case Taiwan would be obliged to open its market to imports of all agricultural products once the island signs up to Gatt.

"The market will not be opened all at once to imports, but when it is we will definitely impose an import duty," he says.

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NEWS: INTERNATIONAL

Banks hit by interest rate curve ball

Gerard Baker on the latest chapter in their long struggle to survive

When Ichiro Suzuki of the Orix Blue Wave baseball team slugged his way into the record books this summer, becoming the first player in Japanese history to make 210 hits in a season, he was not just propelling his club to one of its best seasons ever. He was also setting interest rates for thousands of customers of the leading local bank in the port city of Kobe.

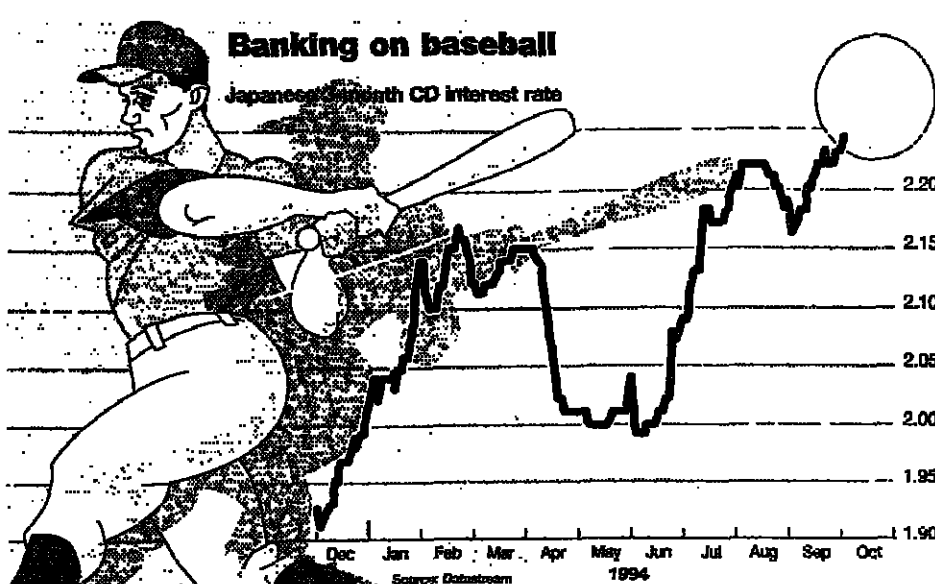
As the season ended Hyogo Bank came up with a novel scheme that neatly exploited the country's two modern obsessions - baseball and saving. It offered customers an interest rate on five-year deposits of one-tenth of the prolific hitter's batting percentage for the season.

Ichiro, as everyone knows him, achieved a club high batting average of 38.5 per cent, meaning he scored a hit on more than one in three attempts. So the bank offered customers a rate of 3.85 per cent for a minimum investment of ¥100,000 (£630).

The rate was just a little above prevailing market rates of around 3.7 per cent, and Hyogo's managers acknowledge that it was probably the enticement of an autographed baseball as much as an extra few thousand yen a year that brought the crowds queuing outside Hyogo's branches when the offer opened.

But the real significance of the "Ichiro Time Savings" account was that it opened a new chapter in the continuing saga of Japanese banks' struggle for survival.

The bank was able to offer the special interest rate thanks



to the final stage of the liberalisation of Japanese interest rates last month. The finance ministry removed the last controls on banks' deposits by permitting them to open five-year deposit accounts, and to set their own interest rates on all hitherto regulated time and demand accounts.

The effect was predictable. Hyogo's innovation was the most novel of the banks' responses to the arrival of a new era of market economics, but the effect was the same everywhere - a small rise in savings rates.

But while the reform was good news for customers, it spelt further problems for the banks themselves since it could hardly have come at a worse time. The removal of the last regulations now makes them more sensitive to interest

rates at precisely the moment when the cost of borrowing is starting to rise.

For the last four years interest rates have been falling as Japan has grappled with its worst recession since the second world war, but as the economy starts to recover a period of rising interest rates will weaken banks' profitability.

According to Mr. Nozomu Kunishige, banking analyst at Kleinwort Benson in Tokyo: "Deregulation of deposit rates means banks' funding costs are set to rise sharply, while their revenues are likely to remain sluggish." Deposit rates tend to rise more quickly than lending rates, leading to thinner margins.

Since the end of 1993, banks' short-term prime lending rate

has remained unchanged at 3 per cent, while deposit rates have risen. The three-month certificate of deposit rate has risen from around 2.0 to 2.3 per cent in the same period, cutting margins by 30 per cent. Worse still, the enormous hangover of bad debts from the collapse of the "bubble economy", a period in the late 1980s of rapidly rising property and other asset prices, mean banks face limited demand for lending. That makes it difficult for them to raise their lending rate. Indeed in the last few months, some banks have been offering loans to blue-chip customers at rates well below prime lending rate.

The position is even more precarious for the smaller regional banks such as Hyogo. They draw a far higher proportion of their funds from indi-

vidual customers, where liberalisation is forcing rates even higher. Interest income accounts for more than 80 per cent of gross business profits at such banks. They are already heavily laden with bad debts which require substantial provisions from profits. In the past they were at least offered some protection by a very low cost of funds, as deposit interest rates were fixed at low levels. Now that advantage has disappeared.

The likeliest implication, according to most analysts, is the further fracturing of the oligopoly that has characterised Japanese banking. In the past, banks have been notoriously hidebound by a desire to stay close to the pack. This natural inclination was reinforced by the strict control of the finance ministry. In the absence of competition in interest rates, differentiation was achieved by minor distinctions in marketing approaches.

According to David Threadgold, banking analyst at Barclays de Zoete Wedd in Tokyo, "there is no doubt that banks' strategies are now diverging, and the deregulation of the last few years means pricing is a key part of that."

The strongest banks are likely to exploit their muscle; for the first time the gap between the strongest and the weakest will take on meaningful proportions. Though few dare say it now, that could even mean that the Japanese banking sector may come to experience what baseball has had all along - winners and losers.

INTERNATIONAL NEW DIGEST

India sees spurt in investments

India saw a sharp spurt in foreign investment inflows in the first months of 1994-95, according to a finance ministry report published yesterday. The ministry estimated the total inflow in the five months to August reached \$2.1bn (\$1.4bn), compared with \$1.1bn in the whole of 1993-94. Direct investment rose to \$381m in the five months to August, against \$20m for the 1993-94 year. Ministry officials said total foreign investment in 1994-95 might, on present reckoning, surpass last year's levels. The figures do not yet include any significant contributions from planned large-scale projects in power generation and oil refining which could start producing investment inflows in the next 12 months. "The surge in foreign investment in recent times is one of the direct manifestations of the success of the economic reforms," the ministry said in a mid-year review of the economy.

The report paints a positive picture of the economic outlook, saying economic growth in 1994-95 is likely to exceed 5 per cent, "much higher" than last year's 3.8 per cent. Agricultural output is good, industrial production is recovering, inflation is being controlled and exports continue to grow, although more slowly than last year. *Stefan Wagstyl, New Delhi*

Vietnamese inflation soars

Vietnam has failed in its push to keep price increases in single figures for 1994, the government's statistics department said in its weekly review, when reporting 11.3 per cent inflation in the first 10 months. A big increase in food costs, apparently because of higher prices for rice caused by floods in the Mekong Delta and market fluctuations, fuelled a 1.3 per cent rise in the retail price index in October. The National Assembly again set single-digit inflation as the target when it fixed economic goals for 1995 at its last meeting of a 12-day session on Tuesday. *Reuters, Hanoi*

Sihanouk warns off tourists



King Norodom Sihanouk, Cambodia's head of state (left), warned tourists yesterday to avoid his country as the bodies of three western hostages killed by Khmer Rouge rebels were recovered, bound and shot, from graves found near a southern rebel base. Saying Cambodia is "clearly insecure", he joined foreign embassies in advising tourists to avoid Cambodia. "I condemn with the greatest severity the contemptible and unpardonable murderers who are responsible for the deaths of these three young gentlemen," the king said in a statement. Mr. Serey Kosol, deputy governor of Battambang province, said meanwhile that the Khmer Rouge kidnapped 71 local villagers and then executed 50 of them after a four-day forced march to a guerrilla base. *Reuters and AP, Phnom Penh*

ment. Mr. Serey Kosol, deputy governor of Battambang province, said meanwhile that the Khmer Rouge kidnapped 71 local villagers and then executed 50 of them after a four-day forced march to a guerrilla base. *Reuters and AP, Phnom Penh*

Chinese move against Jardine

China yesterday demanded that the Hong Kong government provide it with details on the award of a \$500m (£330m) contract to build a base for the Chinese navy in Hong Kong harbour. The contract was won by Gammon Construction, owned jointly by Jardine Pacific, a subsidiary of the Jardine Matheson trading house, and Trafalgar House, an associate of the group. China is furious with Jardine, which is to delist from the Hong Kong stock exchange at the year's end. In retaliation Beijing has withheld its approval for the extension of Hong Kong's container port, in which Jardine has a large interest. In a statement the Chinese foreign ministry said: "As the project is related to the defence of Hong Kong's Special Administrative Region beyond 1997, we demand that the British side provide us with relevant information on the project's bidding." A senior Hong Kong government official said last night that Gammon had won the contract against six other bidders in an open tender. *Simon Holberton, Hong Kong*

Standard Chartered fined

Standard Chartered Securities, the stockbroking arm of Standard Chartered Bank, has been fined HK\$500,000 by the Hong Kong stock exchange and publicly censured for its stock manipulation and "rat-trading" activities - whereby trades for customers are booked through an employee's private accounts with other stockbrokers to the detriment of the client and advantage of the broker. The exchange's disciplinary committee found Standard Chartered Securities failed to exercise proper supervision of its employees between July 1991 and March 1993, which led to the company breaking several rules. *Louise Lucas, Hong Kong*

Jakarta 'clean-up' criticised

Indonesian authorities are cracking down on government critics, labour activists and alleged criminals to "clean up" the capital Jakarta before next week's Asia Pacific Economic Co-operation summit, according to Amnesty International, the London-based human rights organisation. It said yesterday the crackdown began with an anti-crime campaign in April but had been broadened to include "arbitrary arrest of political detainees, some of whom had been tortured and ill-treated, the unfair trial and arbitrary imprisonment of labour activists and the dramatic escalation in the number of unlawful killings of alleged criminals."

In Washington, Mr. Mickey Kantor, the US trade representative, said America would raise American concerns over Indonesia's rights record at the summit. *Our Foreign Staff, London*

Unlikely champion, Page 15

South Korea's industrial output in September rose 8.0 per cent on the year, down from a 10.4 per cent rise posted a year earlier and an 11.7 per cent increase in August, provisional National Statistical Office figures showed. *Reuters, Seoul*

Palestinian aid scheme lags by six months

By Julian O'Connell in Casablanca

The World Bank said publicly for the first time yesterday that the international aid programme to Palestinians was more than six months behind schedule, amid growing concerns about the potentially explosive impact of economic stagnation on the peace process.

Mr. Carlo Koch-Weser, the bank's Middle East and North Africa vice-president, said that by the end of the year donors will have disbursed only about \$220m (£137m) to the Palestinians out of a total \$700m committed for the year.

The Palestine Liberation Organisation has complained about the bottlenecks and bureaucracy in the donor aid mechanism and warned that failure to raise living conditions in Gaza is eroding Palestinian support for peace with Israel and fuelling an Islamic opposition.

Mr. Koch-Weser conceded that, with hindsight, donors could have found faster ways of disbursing money.

But he said: "Success is not about disbursing money fast but doing so in a way to have a visible and rapid improvement in the economic and social conditions... so that mother and child in the refugee camps can see the change on the ground."

Donors had over-estimated the Palestinian ability to build economic management institutions and clearly define and streamline decision-making processes. It had been hard to get adequate donor co-ordination and avoid overburdening embryonic Palestinian institutions with second-priority projects.

Delays in aid disbursement reflected delays in political talks between Israel and the PLO, also more than six months behind schedule. Donors had assumed the still Israel-occupied West Bank would have been transferred to

the Palestinians by last July, a move now unlikely before early next year.

The transfer of the West Bank is vital to Palestinian economic viability and public finances owing to its considerable revenue potential.

The revenue base of the impoverished 900,000 residents of Gaza-Jericho is insufficient to sustain creation of a central Palestinian authority and bureaucracy and pay running costs, and the salaries for 10,000 policemen and 12,000 civil servants. The PLO estimates it can collect a maximum \$5m a month locally and a further \$6m Customs duties and income taxes levied by Israel but transferred to the Palestinians through a clearance mechanism.

Control over the West Bank would add at least a further \$20m a month in clearance from Israel, and considerably reduce the need for donor financing of recurrent costs of the Palestinian authority.

But Mr. Koch-Weser said donors were determined not to let political delays continue to obstruct the aid effort. "In future one must make sure the ups and downs of the peace negotiations don't have a major impact on the momentum of the economic reconstruction and rehabilitation efforts."

There has been vociferous condemnation of Israel's unilateral closure of its borders with Gaza and the West Bank two weeks ago which put 65,000 Palestinian migrant labourers out of work.

Donors say the closure, and Israeli prime minister Yitzhak Rabin's description of Gaza as a terrorist territory have sent worrying signals to the aid community and potential investors.

Donors said in Casablanca there was an urgent need to revise the aid programme and focus efforts on high-impact job creating schemes such as public works to tackle huge unemployment and poverty.

Hamas moderates and Israel edge towards talks

By Eric Silver in Jerusalem

Just two weeks after a Hamas suicide bomber killed 22 bus passengers in the heart of Tel Aviv, Israel and his Islamic Resistance Movement are edging towards a dialogue.

Two West Bank Hamas leaders yesterday came out in favour of talking to the "Zionist enemy". Sheikh Jamil Hamani said in East Jerusalem: "Dialogue is not forbidden. There must be a dialogue to stop the bloodshed on both sides. In Ramallah, Hussein Abu Kweik, said: "We would like to see such a dialogue as soon as possible under Arab, international or Palestinian sponsorship." Mr. Abu Kweik was one of 400 Islamic activists Israel deported to Lebanon two years ago.

Both insisted, however, that Israel must first stop arresting Hamas members and must release those currently in

prison, including Sheikh Ahmed Yassin, the organisation's founder, who has been behind bars since 1989.

They were responding to signals by Israeli ministers that they were ready to talk to "moderate" Hamas leaders. Mr. Moshe Shaleh, police minister, told Labour MPs on Monday: "All Arabs would prefer the state of Israel not to exist. Some of them will not come to terms. But even in Hamas there are differences. Israel is making a mistake when it is not ready to talk to people."

Mr. Yossi Beilin, deputy foreign minister, said on Tuesday: "I don't know what we are going to speak about if there is such a contact. But all those who tried to boycott their enemies eventually had to back off. It happened to us with the PLO, it happened to the British with the IRA. Just boycotting the other side because of its past, or its official view, is

wrong. It doesn't mean that we have to negotiate with Hamas about the destruction of Israel. Then we won't talk to them. But if there are some moderate forces in Hamas which believe that terrorism will not solve their problems and are ready to talk to us, I do not believe that we should exclude the possibility of contact with them."

Mr. Beilin, one of the initiators of the secret dialogue with the PLO that led to the 1993 Oslo agreement, took a similarly flexible stand on possible Hamas participation in elections to the Palestinian National Authority.

"Movements or parties which see the destruction of Israel as part of their platform should not participate," he said. But he saw no reason to oppose participation by Islamic groups which wanted to challenge the PLO leadership, so long as they accepted the legitimacy of whoever was elected.



A Palestinian woman closes her bag after a search by a woman Israeli soldier on the Gaza-Israel border yesterday.

Hundreds die in Egypt fuel blaze

More than 410 people were killed in southern Egypt yesterday, most of them when blazing fuel flooded into a village from a depot struck by lightning, officials in the town of Assiut said. *Reuters* reports from Assiut.

A health official said hospitals had received 239 corpses from the stricken village of Dronka; a security official said another 122 corpses were still lying on the ground there. Flooding killed 63 others, the official said.

Lightning struck the complex of eight fuel tanks holding 15,000 tonnes of aircraft and motor fuel after a thunderstorm had raged for at least five hours, an Assiut official said.

The complex was still on fire at 6 pm local time. A new blaze had started in another storage tank. Firefighters

decided to let the fire burn itself out.

The governor of Assiut Province declared a state of emergency, sending in rescue units and army firefighters to try to control the flames.

The missing included at least 10 men trapped in a mosque during prayers and a maintenance crew working inside the storage complex. The fuel tanks are operated by a subsidiary of the state-run Egyptian General Petroleum Corporation (EGPC).

EGPC officials in Cairo declined to comment on the incident. One said a team of experts was travelling to Assiut to assess the damage to the tanks, used as a strategic fuel reserve for the defence ministry. Meteorologists in Cairo said the storm was one of the worst in Egypt's history.

Burma's junta defiant as US presses for reform

By Victor Mallet in Bangkok

The most senior US delegation to visit Burma in six years left Rangoon yesterday without apparently receiving any assurance from the country's military rulers that they intend to embark on significant political reforms.

Mr. Thomas Hubbard, US deputy assistant secretary of state for east Asian and Pacific affairs, said in Bangkok after the two-day visit that moves by the junta towards political reconciliation would improve US-Burmese relations, but failure to make progress "would lead to further restrictions on our political and economic ties."

Mr. Hubbard, accompanied by US officials from the National Security Council and agencies concerned with human rights and drug trafficking, had three hours of

talks with Lt Gen Khin Nyunt, head of military intelligence. The US visit follows two meetings between Gen Khin Nyunt and Mr. Aung San Suu Kyi, the democracy campaigner held under house arrest in Rangoon for more than five years.

Few details of those meetings have emerged, and Mr. Hubbard said Gen Khin Nyunt did not divulge any details; nor has the junta let the US delegation meet her or other political prisoners. Burma's armed forces have been in power since 1962. They crushed a popular uprising in 1988, and ignored the results of an election in 1990 which Ms Suu Kyi's National League for Democracy won overwhelmingly.

The US has pursued a policy of isolating the junta, downgrading its diplomatic ties and preventing the disbursement of

aid funds from multilateral bodies such as the World Bank. "We would like to see a genuine national reconciliation," said Mr. Hubbard. "We hope it won't be necessary to downgrade our relationship further." The US officials were subjected to a long lecture by Gen Khin Nyunt about the time of British colonial rule, and they in turn lectured the general about the need for moves towards democracy.

It emerged from the meeting that the International Committee of the Red Cross would soon be allowed "a role with regard to political prisoners," that Gen Khin Nyunt had promised to continue talks with Ms Suu Kyi, and that the junta had authorised a survey of Burma's opium crop, which accounts for much of the world's heroin supply.

Beijing push to mediate in Korea

By John Burton in Seoul

China's premier Li Peng, the most senior Chinese official to visit South Korea since the two countries normalised ties in 1992, is promoting China's role as diplomatic referee between North and South Korea.

He is also trying to boost Chinese exports to South Korea, which enjoys a heavy trade surplus with Beijing, while resisting Seoul's demands for fewer trade and investment barriers.

Mr. Li agreed to a South Korean request that China, North Korea's closest and most influential ally, should help in ensuring Pyongyang abides by its recent agreement with the US to dismantle its nuclear programme. China has endorsed the US-North Korean accord as a vindication of its recent policy to promote dialogue between Washington and Pyongyang to solve the nuclear dispute.

But the message brought by Mr. Li to Seoul is that both Korea need to make new concessions to increase stability on the peninsula.

China expressed support for North Korean proposals to replace the armistice that ended the 1950-53 war with a peace treaty with the US. Beijing last week withdrew its representatives from the truce supervisory commission, to promote this policy. But Seoul is cautious about a treaty, since it could lead to US troops quitting South Korea.

It worries that North Korea might try to use the treaty to isolate South Korea from its US ally, since Pyongyang insists Seoul cannot be a party to the pact because it refused to sign the armistice in 1953. But China is backing South Korea's call for renewed talks with North Korea, a proposal Pyongyang has proved reluctant to accept.

China wants to stabilise the Korean peninsula, but analysts believe Beijing's long-term goal is to maintain two separate Koreas rather than see a united Korea on its doorstep. "There is nothing to rule out that China may try to keep North Korea as a buffer state," Mr. Stephen Linton of the Korea Studies Centre at Columbia University, says.

Potential disputes could also affect the growth of close economic ties between China and South Korea. South Korea views China as a potentially huge market for its products and a cheap production base, but fears China's growing competitiveness abroad. China already sells more TV sets to the US than Korea.

China views South Korea as a prime source of vital technology, but has imposed trade barriers on some Korean products and restricted investments because of the threat they pose to the development of key industries. Several Korean car companies, including Hyundai and Daewoo, want to set up plants in China, but Beijing has so far refused their requests.

It is demanding Korean car-makers first set up car components factories, which would benefit the Chinese motor industry, as the price for acquiring manufacturing facilities. Moreover, Korean factories operating in China are mostly producing goods for export rather than the domestic market because of marketing curbs.

To try to persuade the Chinese to favour Korean investors, the chairmen of the country's four biggest conglomerates, Samsung, Hyundai, Lucky-Goldstar and Daewoo, are guiding Mr. Li through their production facilities this week.

The two countries have agreed to co-operate on several industrial projects, including aerospace, cars, high-definition television and automatic telephone switching systems. This week, they signed a memorandum of understanding on co-operation in nuclear power generation. South Korea hopes that in return for providing technology, it will gain extensive market access in China.

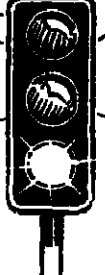
Samsung Electronics yesterday said it plans to invest \$30n over 20 years to build a manufacturing complex in Tianjin, Kunming, South Korea's biggest tyre-maker, has agreed with Nanjing Tyre Factory a joint venture to produce tyres in Jiangsu Province.

One indication the partnership may not be smooth came yesterday when the scheduled signing of a joint-venture pact on a new commercial aircraft project was postponed, owing to disagreements over the location of the aircraft factory planned by Samsung Aerospace and Aviation Industries of China. The two governments approved the joint venture on Monday.

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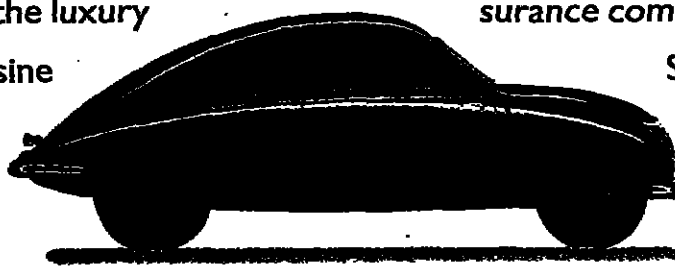
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With the Saab 9000 CD, we've stayed firmly away from the kind of luxury that puts you to sleep. Instead, we've drawn upon our aircraft heritage and built in features that keep you alert, fight fatigue, help you drive more efficiently. The result is a car that combines the luxury of a premium quality limousine with the sports tradition that is so very Saab.

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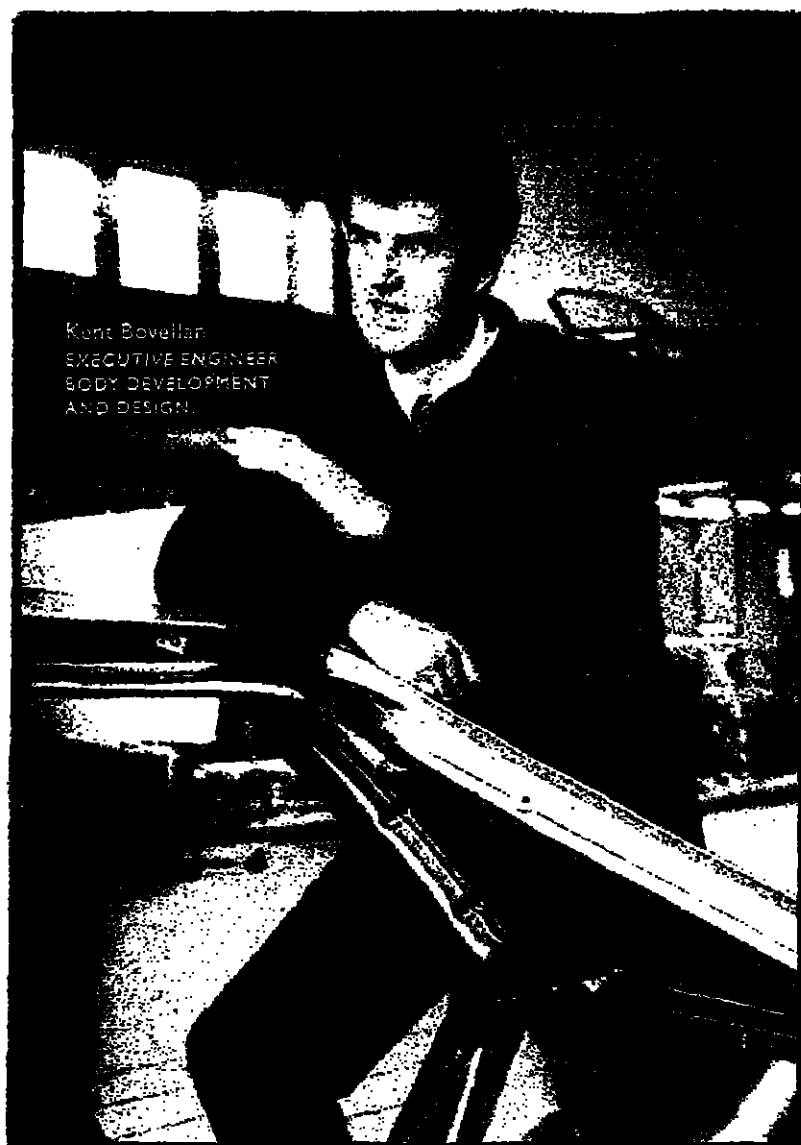
However, you'll be relieved to know that we didn't spend all our time on totally practical matters. Life at Saab, thank goodness, is more than a ruthless quest for the efficient. So the 9000 CD gives you the choice of natural glove leather upholstery. Real wood trim. Suspension that cuts out the shocks without cutting you off the road. Reading lights in useful places. A highly sophisticated alarm system. An audio system custom designed for the 9000 CD's particular acoustics.

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NEWS: UK

Irish PM applauds Clinton backing for 50% aid boost

By John Murray Brown
in Dublin and
Stewart Dalby in London

The peace process in Ireland has been given another boost with the US administration announcing a package of measures to help the economy of Northern Ireland and neighbouring counties in the Republic of Ireland.

Under the deal, Washington's annual contribution to the International Fund for Ireland is to increase

subject to congressional approval from \$30m in 1995-96 to \$30m for each of the following two years. The increases will take the total commitment of the Clinton administration to the fund to \$100m.

Mr Albert Reynolds, the prime minister of the Irish Republic, said: "I am delighted that Northern Ireland is still at the top of the agenda of the American president. The new package will certainly be welcomed in the places that have been devastated by the violence over

the past 25 years. The best thing anybody can do for Northern Ireland is to put jobs back into both communities, where many have not known what normal living is all about."

Mr John Hume, leader of the Social Democratic and Labour party, said: "This is a very welcome announcement by Mr Clinton and confirms the undertakings which he previously gave to help build on the peace. I deeply appreciate the involvement which the president has shown and I am very aware of his

willingness to assist us economically."

In addition Mr Clinton has said he will host an international trade and investment conference on Ireland next April in Philadelphia.

It was also announced that Mr Ron Brown, US commerce secretary, will be in Belfast for the investment conference organised by the UK government in December. Mr Brown will go on to Dublin for consultations.

Forty US companies are already operating in Northern Ireland pro-

viding 9,000 jobs. The International Fund for Ireland, set up in 1986 by the US and European Union, last year stood at £225m. The body provides venture capital for small and medium sized businesses in the province's most depressed areas. Last year it helped create more than 2,600 jobs.

There was a more guarded welcome for the new package from the Ulster Unionist party, the largest of the unionist parties in terms of seats in the UK House of Commons.

Mr James Wilson, the party's general secretary, said: "Financial aid is always welcome provided it is fairly distributed in the province and provided it is directed to areas of real need and in support of real jobs." He added: "What we do not want is money thrown around at the so-called peace process."

The republic's National Forum for Peace and Reconciliation established following the IRA ceasefire will meet in Dublin today for the second time.

Police to join probe into fake fax

By Kevin Brown,
Political Correspondent

Use of a fake fax by The Guardian newspaper to investigate Mr Jonathan Aitken's stay at the Paris Ritz was yesterday referred to the police and the privileges committee of the House of Commons.

Amid fresh allegations about the business activities of Mr Aitken, a junior Treasury minister, Downing Street confirmed that Mr John Major, the prime minister, knew about the fake fax nearly six months ago, but took no action.

After a rancorous debate marked by Conservative allegations of theft and fraud against Mr Peter Preston, The Guardian's editor, MPs voted for a privileges committee inquiry by 313 to 38, a majority of 275.

Mr Preston, who has admitted using the Commons logo on a letter to the Ritz seeking details of Mr Aitken's bill, will be called before the committee in the next parliamentary session.

He said The Guardian had sent the fake fax to acquire a documentary basis for questions about Mr Aitken's behaviour.

"We could not sit on it because something unpleasant might be done to us," he said on Channel 4 TV news.

Mr David Wills, the Conservative MP whose complaint prompted the debate, said he had also asked the police to investigate Mr Preston's "criminal" use of the logo.

Downing Street confirmed claims by Mr Mohamed Fayed, owner of the Ritz, that Mr Major and Sir Robin Butler, cabinet secretary, were aware of the fake fax in May, but took no action.

Mr Aitken denied allegations in the Daily Mirror that he was involved in undeclared deals which gave control of the TV-am television station to Saudi investors.

Insurers disappoint regulator

By Alison Smith

About one in six life insurance companies showed serious weaknesses and flaws in the second round of routine inspection visits by financial watchdogs, the annual report on the sector's regulation says today.

The report describes the result as a "disappointment", though it notes that the position has improved since the first inspection visits when a third of life insurers failed regulators' scrutiny.

Record fines of £300,000 were imposed earlier this year on Norwich Union and on Premium Life, and the life industry has been warned for several months that continuing failures would be severely penalised.

The report from Lauro, which has now been succeeded as life insurance regulator by the Personal Investment Authority, shows admits that plans for inspection visits were disrupted considerably for nine weeks in the spring by the setting up of the PIA.

Lauro says there have been some signs of improvement in standards, citing the shift in the causes of disciplinary action away from harm inflicted on investors towards the risk of harm, and the fact that the number of investigations was only about half that of the previous 12 months. The number of complaints has risen, however.



Mrs Jennifer d'Abo, who resigned yesterday as an outside director of the Northern Ireland Industrial Development Board in protest at the deal on a

textiles plant with Hualon of Taiwan. "One of the key reasons I am resigning is that I still don't know who the IDB is doing this deal with," she said. "I

resigned because I cannot get to the bottom of this thing. This is a very big project, and in my opinion there are too many unanswered questions."

Early rise in base rates ruled out

By Peter Norman,
Economics Editor

UK bank base rates appeared last night to be on hold for this month after yesterday's monetary meeting between Mr Kenneth Clarke, the senior Treasury minister, and Mr Eddie George, governor of the Bank of England.

But higher interest rates in the months ahead remained a possibility after both men, in public comments before and

after their 45-minute discussion, stressed their commitment to low inflation as the best way to promote UK economic growth and competitiveness.

Mr Clarke made clear in a BBC radio interview yesterday that he and Mr George were at one in wanting underlying inflation, which excludes mortgage interest rates, below 2.5 per cent by the end of this parliament.

Mr George, giving a lecture

on unemployment last night, told a London audience that "timely" - and in the end, smaller - increases in interest rates were less likely to damage investment and industrial confidence than inflation.

As usual, neither the bank nor the Treasury would comment on yesterday's meeting. However, it is believed that Mr George did not press for an increase in interest rates this month. As the governor has been more insistent than the

chancellor on the need for timely interest rate increases in recent months, it was assumed that yesterday's meeting decided to keep base rates at 5.75 per cent for the time being.

The bank this week indicated that base rates would probably have to rise over the coming months, but it has shied away from recommending an immediate rise while monitoring developments "very carefully".

Tories condemn privatisation of Post Office

By David Owen and James
Blitz at Westminster

The government was last night on the brink of shelving plans to privatise the Post Office in a move that would deal a bitter blow to Mr Michael Heseltine, the trade and industry secretary.

A final decision on whether to include a Post Office bill in next year's legislative timetable was scheduled for today's meeting of the cabinet. Ministers are expected to conclude that privatisation would be too risky.

The likely retreat follows a meeting at Westminster yesterday at which a group of some 15 Tory backbenchers - more than enough to cancel out the government's Commons majority of 14 - told Mr Heseltine they would be unable to support any sell-off proposals.

Some rebels are understood to have told him that they would regard even the sale of a minority stake as unacceptable. Sir Keith Speed, a Conservative MP who attended the meeting, said afterwards: "There is still plenty of blue water between us."

Downing Street said last night that Mr Heseltine and Mr David Hunt, a senior minister with the title of chancellor of the duchy of Lancaster, would report back to their cabinet colleagues today.

Mr Heseltine told MPs earlier this week that, unless privatisation plans were included in the legislative programme of the next parliament, the project would have to be dropped until after the next general election. Yesterday's developments came after Mr Heseltine tabled a complicated plan for partial privatisation in a last-ditch attempt to rescue the proposed sale.

This would have involved a 40 per cent sale of the Royal Mail, the Post Office's letters division, and the transfer of another 30 per cent to an independent trust. The remaining 40 per cent would have remained in the public sector for a minimum of two parliaments.

Mr Heseltine's move was being portrayed last night in some circles as a tactical error. One Tory backbencher said it had given MPs the impression Mr Heseltine was trying to privatise the Post Office by the back door.

A retreat would also deal a blow to Mr Kenneth Clarke, the senior Treasury minister, who has been every bit as vigorous as Mr Heseltine in promoting privatisation.

MPs who attended yesterday's 45-minute meeting, at which a government whip is also understood to have been present, afterwards expressed confidence that Mr Heseltine would have to abandon his plans.

Editorial Comment, Page 15



HOW EVOLVED IS YOUR LONG HAUL AIRLINE?

If the majority of long distance travellers have anything to declare on arrival, it's usually the wish that they'd been treated a little better. With service at their convenience, not the flight attendant's. And an attitude more akin to "What can I do for you?" rather than "What do you want now?"

South African Airways flies some of the world's longest nonstop routes.

Which means we have to regard certain elements of our service as fundamental requirements, rather than competitive "edges". Good food, for example. In recognition of both quality and the rich variety of our menu, a worldwide award almost exclusively dished out to fine restaurants, the 'Chaine des Rotisseurs' Blazon Shield.

has been awarded to SAA for its culinary fare. And our wine list, which reflects the Cape's most outstanding wines, has been rated among the five best in the world by the much-trusted Decanter magazine.

But these elements alone will not allow us to promise you'll feel like the picture on the right. Only the cabin crew can do that. And only if they have the right attitude.

And whilst we appreciate that attitude is in the eye of the beholder, we believe it's not for nothing that SAA has been voted "Best Carrier to Africa"

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NEWS: UK

UK NEWS DIGEST

BAT may sue regulator in row about advisers

BAT Industries, which owns insurers Allied Dunbar and Eagle Star, said it might issue a legal challenge to regulators' plans for paying compensation to people who followed poor advice about taking a personal pension.

Mr Martin Broughton, group chief executive, said BAT believed life companies operating through direct sales forces - as Allied Dunbar largely does - should not have any compensation liability for investors who have been wrongly advised by independent financial advisers which then go out of business.

The Securities and Investments Board, the City of London's chief regulator, last week published a report on identifying and compensating people who had been wrongly sold personal pensions. It said life companies and advisers should review at least 350,000 cases within the next two years. Some estimates put the bill at up to £2bn (\$3.2bn).

Lex, Page 16; BAT results, Page 17

Credit cards pay prostitutes

A pimp whose prostitutes were paid by credit card was sent to prison for four months yesterday. "Modern business practice has entered the world of prostitution," said a London judge as he sentenced Justin Golding, aged 44, who admitted four charges of living off the earnings of prostitution.

"In essence, Mr Golding provided the prostitutes with a factoring account," explained Ms Sallie Bennett-Jenkins, prosecuting. He provided each prostitute with imprinting machines without the usual trader's franking plate, and a variety of credit vouchers.

After card details had been recorded, the slips were given to Mr Golding, who ran them through another roller imprinter to record his business details before paying them in. He then paid the prostitutes their money after taking a commission of at least 15 per cent.

Call for adverts on BBC TV

The BBC's television channel should be allowed to accept advertising and sponsorship, the Incorporated Society of British Advertisers said yesterday in response to the government's white paper on the future of the BBC, which is still financed entirely from the proceeds of the licence fee levied by the state from all users of television sets, whether or not they watch BBC programmes.

A mixture of funding from the licence fee and advertisers would enable the BBC to compete with growing satellite and multimedia rivals, said the society, which represents many of the UK's largest advertisers. Mr Ken Miles, society director-general, said reliance on the licence fee alone was a "high-risk strategy".

Lottery protest by church

The Church of Scotland, which opposes gambling, is to decide in January whether to dispose of its 320,000 shares in Cadbury-Schweppes. The food company is one of five groups in the Camelot consortium, which is running the lottery starting later this month. The shares form part of the Protestant church's investment fund, the Church of Scotland Trust. The church's Board of Social Responsibility has already recommended that the church should refuse all money from funds that will be made available to charities from cash paid by the public for lottery tickets. The church said yesterday that it had bought shares in Cadbury-Schweppes long before the lottery was announced.

Life insurance tax to change

Changes in the taxation of life insurance are to be introduced with the aim of enabling UK life insurers to compete more effectively in the rest of Europe. The most important shift will affect taxation of "services business" where the insurer does not have to have an office in the country in which the policyholder lives.

This has been allowed only since the changes in European law on life insurance which took effect at the beginning of July. The UK taxes income to policyholders as it builds up in the funds. Most other European countries tax income when it is withdrawn from the fund and reaches the individual.

Sir George Young, a junior Treasury minister, said the British tax system already took account of this difference between tax regimes in the way it treated business carried out through overseas branches of UK life insurers. The changes represent an extension of that arrangement. The new system will apply from the next new accounting period.

Another likely change, but one which has not been announced, is the closing of a loophole in the existing system to make sure that the investment element of offshore reinsurance does not slip through the tax net.

Bank chief backs single currency

The government should bow to the inevitability of a single European currency, said Sir Nicholas Goodison, chairman of the TSB bank. "I believe it will come anyway as trade develops and producers and consumers increasingly see the nonsense of dealing in 12 or more different currencies in the conduct of their day-to-day trade," he said in a lecture at the London School of Economics. "The UK should remain firmly within the circle of European nations considering it. It will do us no commercial or financial good to be left out." Sir Nicholas said that a much greater sense of commitment to the European Union was needed by the UK. "Parliament should not be frightened of delegating decisions upwards or downwards."

Private sector to run state network

By David Owen

A new £150m computer system to hold records on National Insurance contributions is to be financed and operated by the private sector. The present system, which holds more than 61m records, is more than 20 years old.

The government is seeking private investors to develop, test and operate a replacement for the ageing National Insurance Recording System, one of the largest computer systems in Europe.

The aim is to have the new system in place by April 1997 when extensive government pension reforms are expected to take effect.

The project will be the first of its kind to be funded through the government's private finance initiative, which aims to encourage private sector investment in the delivery of public services.

If successful it could provide

a model for the way the government handles other large investments in information technology. Bidders are expected to come from the ranks of large private information-technology companies.

The successful bidder will bear the entire initial capital cost of the project. The bidder would aim to recoup its investment and generate a profit by charging a small fee for every transaction to users - principally the state Contributions Agency, which is responsible for collecting and recording National Insurance contributions.

Bidding companies will therefore be taking a commercial risk both on the future volume of transactions and the amount of spare capacity they decide to build into the new system.

The government is expected to try and build in an incentive for the successful bidder to keep its technology up to date,

Businesses chafe at impact of 'green' laws

By David Lascelles, Resources Editor

Compliance with strict environmental rules is hampering British access to markets in other countries, the Confederation of British Industry, the country's largest employers' organisation, said yesterday. It added that many of its member companies faced difficulties in UK markets because the European Union's environmental regulations were enforced more strictly in the UK than elsewhere.

The CBI published the results of a poll of members about the effects of the growing number of laws framed to protect the environment. A

quarter of respondents to a CBI poll said they were experiencing difficulties gaining access to markets in other countries. Thirty per cent said that they suffered specific British disadvantages because of the stricter enforcement of EU legislation in the UK. "We think the competitiveness dimension should get a fairer hearing," said Mr Howard Davies, director-general of the CBI.

Many of the points in the report challenge the line taken by government on environmental issues, and are likely to provoke a response from Mr Michael Heseltine, trade and industry secretary, who will address the conference.

The CBI says there is little

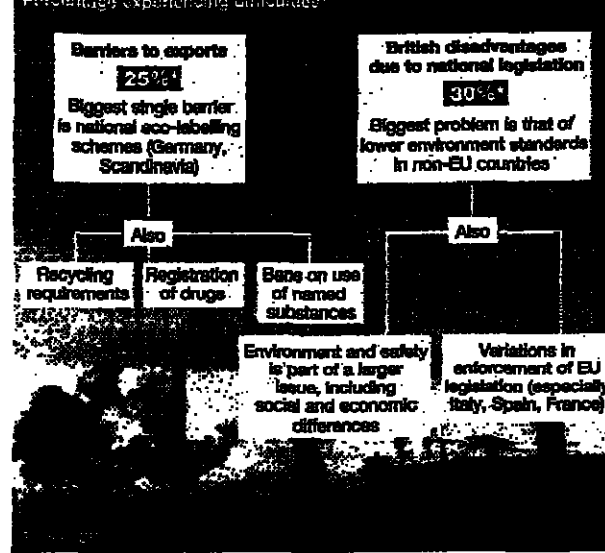
evidence for the government's claim that environmental legislation makes business more competitive by creating pressure for greater efficiency. This claim "has not been justified by a full analysis of the costs and benefits of legislation," the organisation says.

Nor, in the CBI's view, are new environmental initiatives providing "massive new opportunities for products and services" in the way trumpeted by ministers. "At present, too many businesses are falling foul of the pitfalls rather than seizing the opportunities," the employers' body says.

Mr Davies said industry was keen to get into a "win-win" situation where well-planned

The weight of environmental regulations

Percentage experiencing difficulties



regulation brought benefits to business and the environment. "This is not a report which says 'We can't afford all this

environmental regulation'," he added. "But it does reflect frustration over a lot of wasted effort."

Employers win concessions over pensions

The government plans to make concessions to employers in its pension reform legislation by watering down earlier solvency requirements that could have forced schemes to sell shares and buy UK government gilts, our Investments Correspondent writes.

It is understood that a bill

will be presented to parliament in the second week in December. Although the proposals are current government thinking, "they haven't been etched in stone yet," and some further changes could be made, according to one party familiar with the talks.

The government proposed in

June that each scheme should hold enough assets to be able to provide all members with the "cash equivalent" of their accrued pension entitlements.

The government intends to allow equity yields to be used for calculating cash injections for people within 10 years of their official retirement date.

However, only holdings of UK equities will count for this purpose.

Moreover, it is intended that even when calculating the value of assets needed to pay current pensioners, equity yields can be used. Schemes will be allowed to use the higher equity yields when tak-

ing into account liabilities of pensioners with at least 10 years longer to live although again, only UK equities will count.

This new rule would apply only to large schemes, which are likely to be defined as those with assets of £100m (£158m) or more.

Minister fights cuts in roads programme

Dr Brian Mawhinney, transport secretary, is resisting heavy cuts in his department's budget amid signs that the Treasury wants to cut spending on next year's roads programme by up to £400m, James Blitz writes.

Although the government's public expenditure survey is due to be completed in the next few days, Department of Transport officials have been making last-minute attempts to resist reductions of up to 20 per cent in annual spending on motorways and other main roads.

Officials at the department have told the Treasury that a cut of that size would be excessive, making it difficult to provide maintenance for existing roads.

However, Dr Mawhinney and his colleagues have accepted that the annual £2bn roads programme will have to be cut in the next financial year.

They have decided that spending cuts must be targeted on big new projects and not urban bypasses. Five of the six biggest government projects are threatened.

Raise your own interest rate.

The Economist

هكوا من الاصل

WPP's training mix

Mostly because of the lack of a national training program, WPP is expected to continue to rely on its own training efforts. The WPP is expected to continue to rely on its own training efforts, which are expected to be a mix of on-the-job training, classroom training, and self-paced training. The WPP is expected to continue to rely on its own training efforts, which are expected to be a mix of on-the-job training, classroom training, and self-paced training. The WPP is expected to continue to rely on its own training efforts, which are expected to be a mix of on-the-job training, classroom training, and self-paced training.

Diane Sumners

(They did if you had Reuters Financial Television.)

and Mieno, many of them exclusively. The speed advantage over other services has been anywhere from 30 seconds to 2½ minutes.

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هكذا من الأهل

MANAGEMENT: MARKETING AND ADVERTISING

WPP's training mix

Martin Sorrell, chief executive of marketing services group WPP, hopes to capture the interest of up to five "ambidextrous brains" at Cambridge University today. WPP is offering a three-year graduate trainee programme spanning the advertising, public relations, design and research interests of the group. The trainee places - rather grandly dubbed "marketing fellowships" - are among the first of their kind in the sector.

Sorrell's presentation to final-year students will outline the demands of the constituent business as including "fair and slog intuition and logic; left brain and right brain".

The programme, which is likely to extend to recruitment from other UK universities next year, and the US and East Asia in subsequent years, is part of WPP's efforts to strengthen cross-disciplinary understanding. Clients are looking, says Sorrell, for solutions that may not be primarily based in media advertising.

Recruits will move around WPP sponsoring companies - including J. Walter Thompson, Ogilvy & Mather, Hill and Knowlton, Millward Brown, Sampson Tyrrell, and the Henley Centre - before taking up a permanent post.

WPP's move coincides with another to develop practitioners capable of implementing the much vaunted "integrated marketing" approach.

The Integrated Marketing Communications Initiative, launched last week, embraces such bodies as the Public Relations Consultants Association, the Institute of Practitioners in Advertising, the Direct Marketing Association and the Sales Promotion Consultants Association.

Members of the trade bodies are being asked to sign up to a charter, pledging support for cross-disciplinary training and work placements. An advertising agency, for example, might offer a work placement to someone from a PR company, and vice versa.

Diane Summers

Make it simple. Make it direct. And tap into issues with which people can identify. This was the message Dominique Kahane, a director of the Trilium advertising agency, used for a highly successful federal election campaign in eastern Germany.

Staff at Trilium, which represented the Party of Democratic Socialism, the successor to east Germany's former communist party, believed they had a considerable advantage over its competitors from among Germany's other established political parties.

"We are all easterners," says Kahane. "Our office is in east Berlin. Some of us grew up with the problems the easterners have been having since unification."

Instead of focusing on general issues, Trilium homed in on unemployment and housing issues which preoccupy most east Germans. "The success of our campaign is in the result," says Kahane. The PDS polled more than 22 per cent of the vote throughout eastern Germany.

"If anyone wants to come to eastern Germany and try to market a product or a party, you have to do your homework," Kahane adds.

Germany's Free Democrats and Bündnis 90/Greens may be regretting that they did not take to the streets. Indeed, both parties are slowly coming to terms with the disastrous results inflicted on them in eastern Germany.

The FDP failed in eastern Germany to gain 5 per cent of the vote in the last federal elections. And along with the Greens, it failed to get represented in the eastern state

German agencies underestimated the differences between east and west in recent elections, says Judy Dempsey

Polls apart

parliaments of Thuringia and Mecklenburg-Vorpommern - neither could muster enough support to win 5 per cent of the vote, the minimum to enter these parliaments.

"If we want to do better in future, we will have to adopt a completely new strategy," says Wulf Oehme, the FDP's party manager in Berlin.

The lesson drawn by the FDP and other political parties during the federal election campaign is that east Germany is different - the results confirm this. Chancellor Helmut Kohl's victorious Christian Democrats (along with its Bavarian sister party, the Christian Social Union) gained 38.5 per cent of the vote in the east compared with 42.2 per cent in the west; the opposition Social Democrats 31.9 per cent and 37.6 per cent respectively; the FDP 4 per cent and 7.7 per cent; and the Greens 5.7 per cent in the east and 7.8 per cent in the west.

But the question is what kind of

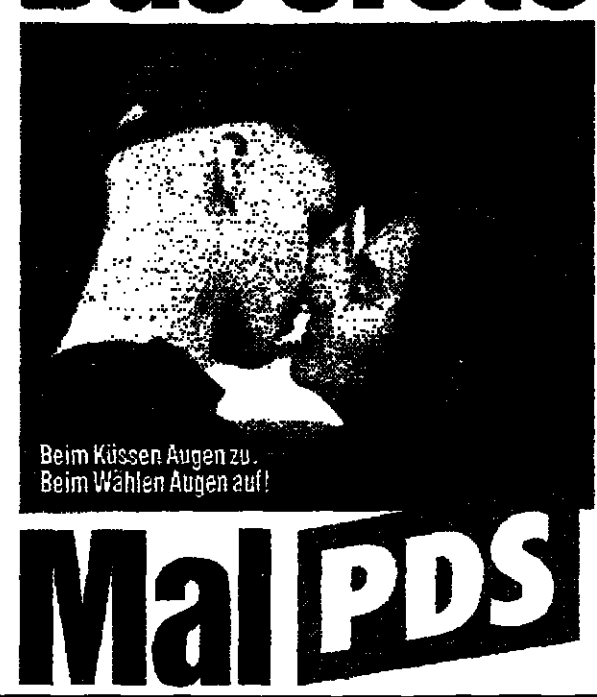
lessons the FDP and other parties have actually learned from the voting trends among east Germans.

"During the campaign, we had made no distinctions between east and west," says Oehme. "But we soon found out that several of the party organisations in the east say they would not even put up the same posters, even if they included Klaus Kinkel [leader of the FDP]."

The FDP (which used Ogilvy & Mather) also soon learned that its slogans and posters which tended to concentrate on *Leistungsfähigkeit*, or efficiency, meant nothing to the easterners. "There is, as yet, no strong entrepreneurial middle-class elite in eastern Germany. Also, if we used slogans extolling libertarian values, which is also the basis of our support in the west, we found out that these values had little relevance for the easterners," says Oehme.

The SPD also tried not to make

Das erste



Beim Küssen Augen zu.
Beim Wählen Augen auf!

Mal PDS

Trilium's campaign for the PDS was aimed specifically at an east German audience

any distinction in its election campaign between east and west Germany. But Frank Stauss from Butler, the SPD's advertising agency, says the party sometimes did focus on specific east German themes. One of these included property, a controversial issue in the east

because former owners have been allowed to return and reclaim land which had either been confiscated by the Nazis or expropriated by the communists.

"We found an east German family and used them in our posters in the east. The slogan we used was 'What

is ours, remains ours," explains Stauss. "The easterners could identify with that."

Throughout the campaign, the SPD discovered other differences between the two Germans. "In west Germany those who come to the market place to hear a politician come because they support that party. In east Germany we found out that the same people came to the CDU and SPD rallies to find out more. You just cannot assume you have your supporters at each rally." Also in the east the SPD could take out a page of advertising spelling out policies in detail. "The easterners read more and want to know more than in the west," says Stauss. "Anyone coming into east Germany should know that there is still an insatiable appetite for information."

Kohl's CDU, however, refused to make any differences between east and west. "Our strategy had two main aims," explains Elke Tonscheidt, a CDU official involved in the campaign. "The first strategy was to regard Germany as one country. So we kept the same slogans throughout. The second strategy was the Chancellor himself. It was his personality we were selling both in east and west Germany. We never deviated from that."

All parties concede that personalities mattered during the campaign, but they also agree that knowledge about local or regional conditions proved crucial. "Despite five years of German unification, no marketing agency should take anything for granted in the east. The differences are narrowing. But there's a long way to go yet before both Germans are really united," says Kahane.

Must have a good credit rating, yet be sufficiently relaxed to spend regularly without wanting to pay off the bill each month.

It may sound like a mercenary "lonely hearts" advertisement, but the line neatly sums up the qualities that all credit card issuers are looking for these days. Despite the £10-£12 annual fee most of their profit comes from the annual percentage rate charged on outstanding bills.

Their common aim notwithstanding, players in this increasingly cut-throat business have adopted a diverse range of marketing strategies over the last year.

An important catalyst was the launch of the GM card from Vauxhall last October, followed by the entry of other surprising issuers, such as newspapers. No one expects the contest for customers to do anything but intensify.

GM stepped up the competition for credit card customers - who splashed out almost £26bn in the

first nine months of this year - by offering an annualised percentage rate (APR) of interest below that charged by the largest issuers, no annual fee, and points towards a discount on buying a Vauxhall car. One year later, there are about 450,000 GM cards in circulation.

Save & Prosper, the investment house, has found that a combination of advertising and close targeting pays off. The card is available only to UK home owners, and its main selling point is an APR among the lowest on offer. Mark Christopher, S&P marketing manager, admits the strategy cuts across conventional wisdom, but says press advertising gives a better cost per inquiry than direct mailing - or did when the latter was last tried in 1980.

Advertising's effectiveness may lie in the fact that S&P is content to have built up gradually to its current 200,000 or so cards issued jointly with Robert Fleming. A further factor is that it is aiming to attract a relatively narrow group of people who know they intend to borrow and so are "rate sensitive"; for others the existence of an annual fee is more of a deterrent, since they pay off the bill in time to avoid interest charges.

The marketing campaign for the GM card, by contrast, has been intended to win market share more quickly and more broadly for a brand previously unfamiliar to the UK market.

Emma Serebny, marketing manager for the GM card, says the

campaign has been based on an integrated approach, involving television and press advertising, posters and direct mail shots with the aim of ensuring that someone who receives a letter would already be aware of the card and have some idea of what it offered.

For cards issued by the main clearing banks and some building societies the marketing challenges are different.

The aim may be simply to reach the customer with whom the organisation already has another - probably more important - relationship.

At Halifax Building Society, for example, credit cards are outside the core business of savings and mortgages, but part of offering a full range of financial services.

John Walsh, assistant general manager of banking at Halifax, says there is therefore little point in television or press advertising, and much more to be gained from targeting the society's 12m customers.

Although Halifax is one of only two issuers to offer interest on credit balances, Walsh sees such peripheral benefits as little used and admits it can be difficult to differentiate credit cards. "There is a great deal of inertia [among customers in personal financial services], and so we want to be first to offer the service," he says.

For Barclaycard, which with 8.8m cards has the largest share of the 27m card UK credit card market, the issue has been different again. While it is part of the Barclays

group, as a credit card operation it wants to emphasise its availability to customers of other banks as well.

Its most striking marketing strategy this year, however, has been its offer of rebates of up to £150 to credit card holders transferring outstanding debts from other cards.

This tactic - typically used by small issuers trying to break into the market - is a further sign of the increasing competition.

Shaun Powell, Barclaycard's commercial director, believes that this will see the market split into two types of card: the "vanilla" product with no annual fee and a low APR but no extra benefits; and cards that have higher costs but are marketed on the basis of "added value" - including insurance, a range of discounts, and the opportunity to benefit good causes and even political parties.

However desperately card issuers seek the ideal customer, it seems the need to develop and market a card offering everything for nothing indefinitely is still a long way away.

NORTHERN IRELAND DEMONSTRATES ITS WORLD CLASS

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RECENT INTERNATIONAL INVESTMENT

The new dynamism of Northern Ireland's industrial base is demonstrated by the variety of inward investment attracted to the province. Among the companies from throughout the world which have seen the advantages of a location in the region are:

- SEAGATE TECHNOLOGY of the United States which has a £45m manufacturing plant and a £15m R&D facility underway at Londonderry.
- MCKEES VEHICLES COMPONENTS OF Gt. Britain which is manufacturing fuel lines in Newtownards, Co. Down.
- MKF FOLKIN GMBH of Germany which has invested £10m in a packaging factory in Newry, Co. Down.
- SHINSUNG INDUSTRIAL of Korea which is making printed circuit boards at a £5m factory in Ballymena, Co. Antrim.
- BENELUX INTERNATIONAL of Hong Kong which has chosen Limavady, Co. Londonderry for its £36m investment in a CD box factory.
- DAEWOO ELECTRONICS of Korea which makes VCR head mechanisms at a £17m facility at Antrim.
- SCHRAEDER AUTOMOTIVE INC. of the United States which has a £2.3m investment in a pressure gauge factory at Antrim.
- TRANSPEC PLC of Gt. Britain which has a £16m car components operation in Londonderry.

In the hunt for that vital new investment, Northern Ireland starts ahead of the field. During 1993-94 the region won more than six times its per capita share of all greenfield investment coming into the United Kingdom, some 18 per cent in all. The IDB has just reported its most successful year ever, during which it announced projects from 26 overseas investors worth around £300m and with an employment potential of 2,300 jobs.

Its results in the year to March 1994, in terms of job opportunities, represented a 17 per cent increase on its previous best figure achieved in 1988-89. Among those US and Asian companies seeking the province for new operations were Seagate Technology from America's Silicon Valley, Shinsung Industrial of Korea and Benelux International of Hong Kong.

They and other companies have sound reasons for their choice of location. They see Northern Ireland as a strong springboard into Europe because of the quality and availability of the local workforce, the area's mature and efficient business and transport systems, low operating costs and a generous incentives package.

Desmond McVeigh, Chief Executive of the IDB, points to the quality as well as to the quantity of new investment.

"The arrival of high calibre companies such as Seagate and Shinsung reflects the fact that Northern Ireland's reputation as one of Europe's most profitable manufacturing regions continues to grow and that we are enjoying increasing credibility as a top class business location in the eyes of industrialists around the world," he says.

McVeigh says the prime factor convincing some of the world's leading companies to site manufacturing plants in Northern Ireland - and the reason for their subsequent success - is the quality of the labour force. Not only is labour abundant, he says, but it is flexible and adaptable; and the province has fewer industrial disputes per head than most other parts of Europe.

"It was the availability of such people which originally helped persuade Seagate Technology to set up a £45m computer components plant in Londonderry. They were so impressed that in January this year, even before the new factory



Flexible and highly productive workers have helped give Ryobi a very definite competitive advantage in Northern Ireland

was finished, they announced they would locate a £15m research and development facility - their first in Europe - on the same site," he says.

The second main attraction of the region is its cost structure. Labour costs are among the lowest in Europe. Low accommodation costs and the fact that all manufacturers are exempt from property taxes combine to ensure that operational costs for a company in Northern Ireland can be much lower than in many other areas in Europe.

This cost advantage was an important consideration for the Korean company, Shinsung Industrial, which is putting a printed circuit board plant in Ballymena in County Antrim, Mr McVeigh adds. "This factory will produce components on a 'just in time' basis for other Asian electronic companies in Europe. These will include another Korean company - Daewoo Electronics, which has a state-of-the-art video cassette recorder plant nearby in Antrim and which is in the middle of £15m expansion programme."

The IDB believes its incentive package is the third most important factor in Northern Ireland's favour. McVeigh calls it "comprehensive and flexible" - with generous depreciation allowances, revenue grants to help with start-up costs, training, interest relief and product and marketing development, and capital grants of up to 50 per cent of the cost of buildings, machinery and equipment.

The fourth top attraction frequently referred to by investors is the transport network which offers fast and cost-effective road, air and sea links to every major international market. Given Northern Ireland's geographic position, the quality of these links is crucial - and the evidence proves that manufacturers are more than satisfied they can reach their markets without any competitive disadvantage. Hong

Kong-based Benelux Manufacturing has set up its first European plant in Co. Londonderry. Boasting customers such as Sony, Olympus, Philips and 3M, Benelux is one of Asia's fastest growing companies. At the £36m purpose-built Northern Ireland facility it is making compact disc boxes for the European and American markets.

Inward investment has clearly helped Northern Ireland to perform well during a recession and in recovery. But growth has also been fed by the increasingly competitive nature of indigenous industry, particularly those companies who are serving world markets. The ability to tap markets in buoyant economies, the level of spending on research and development and a growing commitment to training tend to suggest that these companies are set to make a long-term contribution to growth.

Northern Ireland has faced deep-seated economic challenges. For the past 30 years it has suffered chronic high levels of unemployment. Improvement, though not dramatic, is now evident. Employment in the province grew by 1.1% in 1993-94, and unemployment has been in steady decline over the past two years.

The extent of the so-called peace dividend is difficult to forecast. However, Government and the Confederation of British Industry share the view that if violence is eradicated permanently a net increase of 20,000 jobs is possible over five years.

The CBI believes the impact of an end to violence would be profound. It says there are clear significant benefits principally relating to inward investment opportunities, tourism, the indigenous industrial base and the freeing up of public expenditure for wealth creation activities and social needs.

In the short term, the rising mood of confidence engendered by peace is in itself a dividend. Hopes for higher levels of economic activity have been buoyed by activity in sectors such as property and retailing. Hilton International and Radisson have recently signed multi-million pound deals for new hotel developments in Belfast and Londonderry. Holiday Inns are expected to announce three new hotels in the Belfast region soon. In retailing, Habitat, Walt Disney and Monsoon will open major new stores in Belfast later this year.

Manufacturing investment of the quality exemplified by the Management Today Best Factory Award winners remains the chief priority because of the direct and indirect employment opportunities it creates and the new technologies it introduces to the economy. Northern Ireland's recent record shows it to be an industrial location of world-class quality which multinational companies can maximise profitability.

An increasing number of companies are taking note of the region's advantages and of the prospects which could lie ahead. A senior executive of Ford Motor Company, Bob Womack, the general manager of the company's electrical and fuel handling division, has indicated that lasting peace would encourage the company to consider future investment at its Belfast plant.

"Ford Belfast is a key player in our drive to be the world's leading automotive company," he said on a recent plant visit. "Belfast provides best-in-class components for company vehicles and we look forward to future success building on today's success."

A student of industrial history would enjoy the short motorway drive from Belfast to the town of Carrickfergus on the shores of Belfast Lough.

Evidence of a previous industrial boom is visible in the shape of former tobacco and mass-made fibre factories. But within the space of a few miles he would be transported across three decades by the sight of a modern factory erected by the Japanese company Ryobi, one of the world's leading aluminium die-casters.

Following in the footsteps of Japanese giants such as Nissan, Toyota and Honda, Ryobi was attracted by the United Kingdom's high growth rates and low production costs. Its Northern Ireland operation - Ryobi Aluminium Casting (UK) - was named yesterday as a winner of the 1994 Management Today Best Factory Awards out of a record entry of 283. Since commencing full scale production in Northern Ireland in 1992 Ryobi has found that its highly productive workforce has given it a very definite competitive advantage. Company executives also claim that overhead costs for its Carrickfergus plant are the lowest in the group.

The judging panel from Management Today, Cranfield School of Management, the Department of Trade and Industry and the Confederation of British Industry also made a special award to another Northern Ireland factory - European Components Company (ECC) - which was recognised as having made an outstanding achievement in world class manufacturing.

Both Ryobi and ECC are in the automotive sector, which employs some 4,600 in Northern Ireland. Both are Japanese owned - part of the growing community of Japanese manufacturing investment in the province which now consists of eight companies with existing and potential employment totalling almost 2,800. And perhaps surprisingly, both have management teams drawn exclusively from within Northern Ireland, making their Management Today awards successes all the more remarkable.

In many ways the two winners symbolise the new face of manufacturing in Northern Ireland and the improving fortunes of the regional economy as a whole. While economic growth in the 1980s lagged behind that of the rest of the United Kingdom, economists are now charting a different and vastly more encouraging story.

During the recession industrial production in Northern Ireland showed no overall decline. Growth during the recovery has been strong - and manufacturing production rose at an annual rate of 3.5% from the second quarter of 1992 to the fourth quarter of 1993.

The strength and the nature of economic performance has led economists to conclude that a clear improvement has been taking place in Northern Ireland's relative competitiveness. Improvements in labour costs relative to Gt. Britain have been cited as possibly the most important source of competitive advantage.

Record levels of overseas investment are being achieved, a trend that was obvious long before the process towards peace in the divided Northern Ireland community took its recent dramatic turn. The ceasefire by paramilitary groups has raised genuine hopes that the encouraging upward trend in investment, typified by Ryobi and many others, will gather fresh momentum in an era of peace.

Industries such as automotive components and electronics have been targeted to the



The recent arrival of world class companies such as Seagate reflects Northern Ireland's growing reputation as one of Europe's most profitable manufacturing locations.

investment drive spearheaded by the Industrial Development Board for Northern Ireland (IDB). It has identified key sectors and geographic areas which it believes will deliver the best results. For instance, it now has a representative office in San Jose in California with an eye on the computer hardware industry.

The prospect of stability opens up a whole new range of opportunities. The Northern Ireland Economic Council, an independent body set up to advise Government, says it provides an economic scenario that has never been better in the past 25 years. Moves to exploit the new situation have been taken quickly. Government, at all levels, is stepping up the drive to demonstrate Northern Ireland's investment environment to those whose decisions could be vital to the future prosperity of the region.

This exercise is being led from the top. The Prime Minister, Mr John Major, in a recent speech to the Institute of Directors in Belfast, announced that the Government would convene an investment conference in Belfast in December. Influential British industrialists and senior City figures will join potential investors from Europe, the United States and the Far East to learn of the region's advantages and to discuss how industry and Government can in tandem develop opportunities for job creation.

The Prime Minister's IOD speech highlighted the changes which just a few weeks free of violence have made. Trade in the High Street had gone up by six per cent in just a single month, he said. The President of the European Commission had established a task force to look at new European Community programmes for the region, with the objective of funding new projects to regenerate city centres so that long term unemployment could be cut, investment attracted and tourism stimulated. Mr Major spoke of a substantial package of "new measures and of new money" from the EC in addition to the Government's own spending plans.

TECHNOLOGY

Bernard Gray reviews two books which show that the story of how the Bomb was born has lessons for today

Bang up to date

The agreement that North Korea is currently preparing to sign with the US to limit its nuclear programme may avert a potentially dangerous proliferation of atomic weapons material in Asia. It also has ramifications for the handling of the nuclear non-proliferation treaty, due to be renewed next year. How the west handles its own nuclear disarmament, and how it deals with developing countries' nuclear ambitions are central in the debate about nuclear proliferation.

But the story of the North Korean nuclear programme has a more disturbing resonance from the west's recent past. Two books published recently about the British and Soviet atomic bombs show just how closely the Koreans were following the path which the second world war allies trod 50 years ago.

The kind of nuclear reactors Korea built recently, and the purpose for which they were intended, are almost identical to those constructed by the US, the UK and the Soviet Union during the 1940s.

Those interested in the science and engineering of how an aspiring weapons state might go about building a nuclear bomb can learn much from either of these books. David Holloway's* is the more serious, and is an important addition to the history of the Bomb. Brian Cathcart's account** is lighter, and sadly misses out much of the detail that gives Holloway his authority.

Yet the scientific detective story, the romance, and ultimately the horror of the original development and use of the atomic bomb is still best set out in Richard Rhodes's award-winning and definitive story first published in 1986***. As well as technical detail, Rhodes picks out

the human side of the story: the struggles of physicists, many Jewish fugitives, against technical challenges and political obstacles makes compelling reading. His account of Hiroshima is harrowing.

The two more recent books lack the thrill of the initial chase and its sickening conclusion, but they throw fascinating light on the similarities and differences between the US, Britain and the Soviet Union. Cathcart's book is written in a less academic style, but both books tell parallel stories about the same period and inevitably view the same incidents through different lenses.

In all three countries bureaucratic bungling held back development. It was more than two years after Einstein wrote to Roosevelt, warning the president of the possibility of the Bomb, that there was a significant US effort to produce atomic weapons.

In the Soviet Union Stalin had received excellent intelligence from Britain and the US on the critical

issues in bomb development, but Russia in the early part of the war was thinking of survival in terms of weeks, rather than the years that the new superbomb would take.

Even when the USSR regained the initiative, Molotov, the foreign secretary, did not trust his own scientists and believed the reports could be a plot by the west to make Russia waste resources on a pointless scheme. Only Hiroshima finally shifted official Russian attitudes.

Britain had more mundane concerns. Having been ahead in 1940, thanks largely to a brilliant analysis of the main problems by Frisch and Peierls at Birmingham University - leaked wholesale to the Russians - Britain refused to share its work equally with the US. The Americans soon pulled ahead and it was not until 1945 that the US readmitted the UK to the project.

Despite the UK effort to help develop the Bomb, the US cut Britain off from atomic research after the war. Atlee then deter-



mined that Britain must have at least the capacity to build nuclear weapons. William Penney was encouraged to head the project but he ran headlong into Whitehall. Other departments were so jealous of resources that they refused to supply half a dozen draughtsmen for a project the prime minister had given the highest priority.

There are many such vignettes in both books. Beria, the secret police

chief in charge of the Russian Bomb, made a list of those to be shot or deported to Siberia if the project failed. When it worked, he used the same list: those who would have been shot were made Heroes of Soviet Labour; those to have been deported received lesser honours; those who would merely have been sacked got commendations. In the UK, Penney got a knighthood. The Americans, once persuaded

of the viability of the Bomb, were typically thorough and threw enormous effort and scientific skill at it. By 1945 the project had cost \$2bn (£1.5bn). The British were typically proud of the fact that they built their Bomb on a shoestring. The Russians poured in the full resources of the command economy and had no idea how much they spent. "Give them what they want," Stalin told Beria, "we can always shoot them later."

Neither the British nor the Russians made much of the fact that their first atomic bombs were direct copies of the original US design.

Chillingly, given how much technology has progressed since, that design is nearly the one that would be used by a nascent weapons state today. Those trying to learn the lessons of 50 years ago can see clearly that once the physics had been established, getting plutonium or enriched uranium was the hardest problem. Producing it requires enormous, expensive sites, which are relatively easy to spot, as in Korea. Controlling the production and flow of plutonium is the only way to keep the nuclear genie even half way in the bottle. The destructive power of the Bomb, vividly described in these books, makes that an urgent task for the negotiators to take on.

***Stalin and the Bomb: the Soviet Union and Atomic Energy 1939-1956. David Holloway, Yale University Press 1994, £19.95**

****Test of Greatness: Britain's struggle for the Atom Bomb. Brian Cathcart, John Murray (Publishers) 1994, £19.99**

*****The Making of the Atomic Bomb. Richard Rhodes, paperback, Penguin 1986, £10.99**

Power cable conduct

The world's first prototype superconductor power cable is to be made by a consortium of companies and laboratories with backing from the US Department of Energy. American Superconductor, a leader in the development of superconducting wires, Pirelli Cable, a division of the Pirelli group, and the Electric Power Research Institute (EPRI), which is funded by US electrical utility companies, will undertake the project with researchers at three of the US National Laboratories.

The goal is to make a 30m superconductor underground power transmission cable, to be tested under real operating conditions by EPRI. The \$5.5m (£3.7m) project will be funded jointly by the Department of Energy and the companies.

Superconductor materials lose resistance to the flow of electric current at low temperatures. The first metal superconductors, discovered early this century, had to be cooled to nearly 4° Kelvin, or -454° F.

In 1986, however, "high temperature superconductors" (HTS) ceramics were discovered. These materials exhibit superconductivity at temperatures up to 130°K or -225° F, substantially reducing the costs of cooling.

The cable will be made by stranding HTS wires round a hollow core. The superconducting material is cooled by running liquid nitrogen through the cable. "We are truly approaching the commercialisation of HTS power transmission cables," says Giuseppe Morchio, general manager of Pirelli's cable operations. "The cables demonstrated under this programme will show the improved performance and reliability that HTS technology can provide."

The prototype cable will be able to carry more than twice the power of conventional copper cables of similar size. Ultimately, superconducting cables are expected to be able to carry many times the power of copper cables with lower energy losses.

Louise Kehoe

David Buchan on a French project to make Europe's spy satellites less US-dependent

Military eyes in the sky

In one respect, president Saddam Hussein's imitation of the grand old Duke of York in marching his men to the Kuwaiti border and then marching them back again came at just the right time for the French government.

It helped remind France's politicians, taxpayers and European partners how essential satellite intelligence was to tracking the vagaries of Iraqi troop movements this time, just as it was during the Gulf war of 1991; it reminded everyone of why Paris plans to raise spending on military space activities, mostly spy satellites, by 24 per cent to FF75bn (£590m) in 1995 alone.

France's overall political aim is to make itself in particular, and Europe in general, less dependent on the US for military satellite information. In the 1981 war France's Spot civil satellite produced a useful complement to the Pentagon's KH (Key Hole) military

satellites, because Spot produces stereoscopic photos, providing a three-dimensional image. But Spot lacks the pinpoint detection of America's "Big Birds", as it is unable to detect anything less than 10m wide.

France has been spending heavily on military satellites since 1986 when it started the Helios I programme with Italy and Spain which are funding, respectively, 14 and 7 per cent of the programme.

Early next year Ariane is due to put into orbit the first Helios I satellite, whose images will be processed at Torreón in Spain. This ex-US Air Force base near Madrid has been converted into a satellite

picture processing unit run by the Western European Union, the defence wing of the European Union, which has so far only been fed by images from Spot.

The French are well aware, however, that Helios I is far from completely answering Europe's needs. It may cost more than FF11bn, but it is simply an optic system and can take photographs only during the day and in good weather. Enough, perhaps, to cope with the interests that Helios I's three partners have in the Mediterranean, but not much good for covering the often-cloudy regions of northern and eastern Europe. Nor will the planned successor programme, Helios II, be

much better in this regard; its infra-red imaging will penetrate night, but not heavy cloud. Spain also said this summer that it would drop out of the FF77bn Helios II programme because it could no longer afford its 7 per cent share.

But hopes are rising in Paris that Germany may at last join in - not necessarily in Helios, but possibly in France's Osriris project for a radar satellite, or in a much more ambitious Europe-wide project being discussed in the WEU. The German government and industry are much more interested in spy satellite detection by radar that pierces clouds and can even reveal subterranean objects, such as bun-

kers, lying in several metres of loose soil, such as sand.

A feasibility study conducted for WEU defence ministers by some 30 companies under the leadership of Deutsche Aerospace (Dasa) and a subsidiary, Dornier, which makes medium-range turboprop aircraft, puts the cost of a complete system at up to £241bn (£11bn) over a life of roughly 1997 to 2022. This seems expensive, but perhaps less so given that WEU's 10 member countries could split the cost over a quarter century and given that the system would include a mix of manoeuvrable radar and optically-based satellites with space-based relay stations. The optically-based

satellites would have a resolution down to 50cm-100cm, while that of the radar satellites would be 3m.

Different platforms are needed because radar imaging is carried out at an oblique angle and therefore on a satellite on a different orbit to optically-based photography which is conducted vertically above the target. As for relaying images to the processing centre, the only alternative to space-based relay stations would be to have ground stations around the globe.

Not surprisingly, the WEU project is hanging fire. Cost is the overwhelming drawback for all WEU members. But there is perhaps another element in the opposition of the two most reluctant countries - Britain and the Netherlands. While both are attached to Nato, the UK is the only Nato ally to which the US gives raw images from its satellites, rather than the processed data Washington gives to the rest of the alliance.

PEOPLE

More feet under Stylo's table

Stylo, the Bradford-based footwear retailer and manufacturer, yesterday promoted Michael Frankel, 50, and Stephen Lewis, 42, to the main board, restoring the complete to 10 following the departure of Mike Smith and the retirement of Patrick Hammond-Turner in the summer.

Smith, who was finance director, went to Athena, the Pentos subsidiary, as md. This consolidated the position of Stylo's group md Michael Ziff, 41, who was redesignated as chief executive in yesterday's changes.

The change of title is to help people outside avoid confusion with our divisional managing directors," Ziff said, when asked about the adjustment in nomenclature. Frankel will continue in one such divisional role, as md of Stylo Barrett shoes. Lewis, a scientist with a PhD, will have overall responsibility for information technology and distribution.

Stylo is hardly a household name for a company owning 500 retail outlets, but Barratts, the name over most of their front windows, is. It was this universal high street presence that led to Conrad Rithlat's British Land trying to lever its way into the company during the 1980s property boom.

The concerted efforts of employee and Ziff family shareholders beat off the challenge, led by the redoubtable Arnold Ziff, now 67, the chairman - and Michael's father. Ziff the elder also chairs the Leeds-based Town Centre Securities and is one of Yorkshire's business establishment.

Will he now be taking a back seat? "He is very much involved and, as usual, telephoned me from London at 8 am this morning for Tuesday's sales figures," Michael Ziff said yesterday. Thanks to the computer technology new director Lewis is in charge of, they were immediately available.

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Lord Rodgers to chair ASA

The UK's self-regulatory body controlling advertising standards - the Advertising Standards Authority - has appointed a new chairman to replace Sir Timothy Ralston when he retires at the end of his four years on January 1 1995.

The new chairman is to be Lord Rodgers of Quarry Bank, former member of parliament for Stockton-on-Tees, later Stockton North, between 1982-83. He held a variety of cabinet posts in Labour governments. More widely known as Bill Rodgers, he was a long-standing member of the Labour party until in 1981 he



defected to be a founder member of the Social Democratic Party along with Shirley Wil-

liams, David Owen and Roy Jenkins.

In 1987 he gave up being the SDP's vice-president to take a £25,000 a year job as director general of the Royal Institute of British Architects, a post he held until February this year. Rodgers, 66, is now a Liberal Democrat and was created a life peer in 1992.

During the SDP's party conference in 1987 he was reported as saying that "politics is a painful, damaging and often cruel business". With such a background, monitoring legality, truthfulness and decency in the world of advertising should be a piece of cake.

Non-executive directors

Sir Clive Whitmore, 59, the former permanent under-secretary at the Home Office who took early retirement, is joining the board of merchant bankers N.M. Rothschild & Sons.

He has already joined the boards of Boots and Morgan Crucible and joins Rothschild as a non-executive director on December 1. Although he will be one of more than 20 non-execs at Rothschild, the merchant bank has taken the slightly unusual step of announcing that "his principal task will be in the field of human resources". Sir Clive has much experience in human resource work, not least in senior appointments and selection procedures.

Rothschild has long had close ties to the Conservative

government and Sir Clive is the latest in a growing list of ex-civil servants who have ended up in Rothschild's boardroom. These include Sir Frank Cooper, a former permanent under-secretary at the Ministry of Defence, Lord Armstrong, a former Cabinet Secretary, and Sir Derek Thomas, a former Foreign Office official and ex-Ambassador to Italy.

Sir Clive was principal private secretary to Margaret Thatcher for the first three years of her government and subsequently permanent secretary at the MoD and the Home Office. When he resigned from his last job there was speculation that his early departure may have been linked to policy differences with Michael Howard, the Home Secretary.

Howard Poulson, chief executive of Parnell Electronics, as chairman of PERA INTERNATIONAL in

succession to Viscount Raynham.

Robert Jordan, Magnus Mowat and Robert Paine have resigned from SCHOLES GROUP.

John Siebert, a former deputy chief executive of Reed Business Publishing, at INSIDE COMMUNICATIONS.

Jack Shaw, deputy governor of the Bank of Scotland, at THE SCOTTISH METROPOLITAN PROPERTY.

Brian North, chairman of Games Workshop, as chairman at GEARHOUSE GROUP.

David Thompson, md of Wolverhampton & Dudley Breweries, at EXPLORATION CO.

Stuart Hepburn, a director of Gartmore Investment Management, at CHARLES TAYLOR & Co.

Trevor Harrison, retired general manager planning for ICI, at CHELSEA BUILDING SOCIETY.

Constructive careers

Hammerson's drive into continental Europe has taken a step forward with the appointment of Oliver Ash as managing director of the group's European operations. Ash, 36, is a committed Europhile, having lived in France, Germany and Italy for the past 11 years.

Between 1987 and 1992 he worked for property developer Shaftesbury, building office blocks and retail centres across the continent. When the development markets froze with the onset of recession, Ash set up his own Paris-based consultancy and was happily running his own business when Hammerson approached him earlier this year. He will continue to live in Paris in his new role.

Since one of Hammerson's declared aims is to expand its property portfolio in continental Europe, Ash should have sufficient funds at his disposal. The £250m proceeds from the disposal of the group's Australian interests are widely expected to be reinvested before long, with French shopping centres tipped as the most likely first move.

While Hammerson is looking to buy investment properties rather than developments, Ash's experience in development will give the group more options. "I have no doubt that my developer's keen eye will come in useful," he says.

Maureen Whalley, formerly sales director of Rawlings Homes, has been appointed md of BOWEY HOMES.

Jon Lloyd, former md of Yorkshire Water Estates, is appointed md of DTZ DEBENHAM THORPE in Leeds.

Gerald Kaye has been promoted to the board of HELICAL BAR.

Philip Cleaver (below), formerly md of the engineering division of Norwest Holst, has been appointed md of HALL & TAYLOR Partnership.



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مكتبة النجف

Dance
Angelina
Preljocaj

It is not the opportunity for rabid foxes to race into this country that bothers me about the Channel Tunnel, but the increased threat from European modern dance troupes.

So I thought during two-thirds of a Dance Umbrella evening on Tuesday at Sadler's Wells. There on stage were the choreographies and dancers of Angelina Preljocaj (Albanian-French and much admired on the European dance circuit). I have reported on his work before, with some reluctance. As with so much French modern dance, I find his creations intellectually costive, top-heavy with meaning and woefully thin in movement.

Preljocaj's programme had the unmitigated gall to call itself a *Homage to the Ballet Russes*. The first piece - *Un trait d'union* - was wholly unconnected with Diaghilev's enterprise. It showed two chaps trying to pick each other up, physically as well as sexually, while having hell with a squat chair. It claimed to be about the quest for what is known today as "a relationship". Like so much of this kind of modern dance, it was about bad manners - social, sexual, emotional - which are as boring on stage as they are in life. The men climb over each other, and show remarkable muscular sympathy, while Bach and electronic clatter ring out. And, of course, they end up as they began - alone. Someone imported a baby into the stalls on Tuesday night: its cries of distress indicated that a critical faculty can be encouraged at the earliest age.

There followed a shameful assault on *Le spectre de la rose*. The stage laterally divided. Two girls, two matadors and two chairs on one side. On the other, a crop-headed maiden and a man in a rose-petaled outfit trying to toss her like a caber. The Karajan recording of Weber's waltz - broken into by sounds of a dripping tap and faint burblings, of course. Further comment would be an act of supererogation.

All this was Eurotrash of the most debilitating kind. With his version of *Les Noces*, Preljocaj succeeded in a reappraisal of the Stravinsky score. His theme is still marriage, here seen as an event in which stereotypical male attitudes remain potent. Five couples. Five benches. Five large dummies dressed as brides. Much throwing of bodies, and of the dummies which serve as ideals and role-models for the women. The choreography touches the score hardly at all - hearing all those rhythms going to waste was rather like watching fivers thrown in a dustbin. What Preljocaj does identify is the persistence of social roles - and his piece has value because he uses movement to convey this. The language is not very enterprising. This is a catch-as-catch-can style, but the dance has theatrical shape, and comments apply on a Ballet Russes original. It was done with brilliant timing and energy by its cast.

The end of this week will bring a Wells visit by Siobhan Davies' company in two works - *Wanting to tell stories* and *The Glass Blew in* (with a fine Gavin Bryars score) - on which I reported admirably earlier this year.

Clement Crisp



A barnstorming performance: Kenneth Branagh in 'Mary Shelley's Frankenstein'

Cinema/Nigel Andrews

A monster with flashes of brilliance

MARY SHELLEY'S
FRANKENSTEIN (15)
Kenneth BranaghDARK SUMMER (12)
Charles TetonLOVE IN THE STRANGEST
WAY (15)
Christopher Frank

whole film might profitably have had. A horror-comedy version of Genesis: where God is played by man, temptation by a monstrous man-fish, and the Garden of Eden by an overgrown attic with its metallic jungle of gawwags.

But as soon as the creature escapes, so does the film's compacted passion. There is no terror in De Niro's lumbering scarf in a greatcoat: just a husky-familiar De Niro slur delivered with that cocked-head abstraction we know from a dozen De Niro roles.

Watching the film is an exercise in frustration. There are flashes of brilliance as bright as lightning bolts: like the two horrific long-rope hanging scenes, in which Branagh has dreamt up a bungee style of execution for early 19th century Europe; or like the camera's queasy gliding over the Frankenstein's giant staircase (imported from Kane's Xanadu) as people stumble up or down it carrying fresh distress.

As an actor's director Branagh may be the best in the business. He wrings the last drop of idiomatic life from players like Ian Holm, as father

Frankenstein, and John Cleese, improbably but effectively cast as a grim sawbones. And Branagh's own performance is pure, barnstorming splendour.

But there is a point in this story when panache no longer has a premium. We want alarm, foreboding, cold panic, *timor mortis*. The movie's poster carries a warning: "Certain scenes may prove disturbing for some viewers." What scenes? Did I miss them? Were they taken out? If so: back to the laboratory, please, for the "Director's Version."

For most of its span Charles Teton's *Dark Summer* seems so inert that we keep poking it with our perceptions, as if it were a hedgehog at the side of the road. Is it dead or just playing dead? A gently chugging reggae score accompanies images of a picturelessly distressed Liverpool - soot-black sunsets, grey rivers, dry-docked ships - while two scarce-constructed characters meet, love and drift apart.

He is Abe (Steve Aoki), a coffee-coloured mechanic and would-be boxer.

She is Jess (Joeline Garner Joel), a white girl tempting at her father's scrapmetal yard. They meet and link destinies. Then they go through pregnancy, miscarriage and break-up.

It is hard to convey the extent to which nothing happens. For 84 out of 85, the filmgoer fidgets while first-time director Teton sets up his *Mersey-side tale* about a young man, a neighbour reading happily friends for his holiday slides.

Only in one magically pained scene does the film gel. The two

lovers are in bed, she turned away from him. He braves a single, cramped, anxiously reaching word, "Yes", she does not answer. The camera, on his face, watches that moment of numbness, irradiated awareness when an entire relationship crumbles. A film whose "economy" elsewhere seems that of artistic poverty stumbles, for a small second, on the true economy of tragedy.

France's *Love In The Strangest Way* tells of a married man (Thierry Lhermitte) who falls for a bit on the side (Nadia Fares). The bit in question, a mystery redhead met at a cafe, is soon harrying him and his wife (Maruschka Detmers) right up to the murderous climax. She has clearly seen, as has writer-director Christopher Frank, *Panal Attraction*.

Early scenes involving marital paranoia and an accident-prone rocking horse are promising. But then the plot becomes progressively Hollywoodised. Sinister phone calls; a death-dealing shovel; a "body" behind a wall; and a twist ending that succeeds only in knotting

beyond repair our already tangled brains.

But the French film beats the two short German "comedies" opening together this week. Did the UK distributors win these in a raffle? In *Making Up* two love-seeking women friends have fun and heartache dating two tiresome men. And in *The Most Beautiful Breasts In The World* a pneumatic girl surreally swaps mammaries with a man after bumping into him in a lift. Laugh? At the press show you could hear a handstand drop.

In the same programme there is a ghastly New Zealand short about a girl dating an extraterrestrial. What did we do to deserve this triple bill? Did we all say "trick" instead of "treat" last Monday? Never mind. There is always the London Film Festival. Worth sampling during the coming week: one each from Taiwan, Cambodia and India (*Bar Drink Man Woman*, *Rice People*, *Bandit Queen*) and a clutch of celebrity interviews including Hal Hartley, Christopher Lee and those nice *Creature Comforts* folk from Aardman Animation.

Theatre/Alastair Macaulay

Entertaining Mr Sloane/Loot

It is only 26 years since Joe Orton's death. Had he lived, he would today be only 61 years old. Almost nothing in his black comedies has dated. The connections between greed, lust, and criminality remain heartstoppingly funny; and some of his jokes about the Kafkaesque British police in *Loot* are astonishingly "now".

So it is upsetting to discover how seldom his plays are revived in appropriate style. Orton's supreme joke is in his ironic - Wildean - mastery of language. Characters frequently speak with precise formality about matters carnal and/or criminal. Fay to Mr McLeavy (in *Loot*): "You've been a widower for three days. Have you considered a second marriage yet?" The lines need maximum clarity and minimum interpretation. The more suave their delivery, the more delicious their irony.

Or so it seems to some of us out there in the dark. In recent years, however, each Orton revival I have seen has been less stylish than the last. The Birmingham Rep is now presenting an Orton double bill - directed by Gwendolyn Hughes, designed by Kate Owen, with four actors performing in both plays - in which *Loot* is creakily entertaining and *Entertaining Mr Sloane* staggeringly short of innuendo.

It does not help Orton's comedy if the hostess Kath, telling her new lodger Sloane that she has nothing on under her dress, reveals a firm petticoat; or if, where Orton specifies

a "transparent negligee", she wears a fluff-lined dressing-gown. Apart from these more external factors, Stephanie Fayerman's interpretation - pigeon-toed, half-gauche and half-dainty, hysterical - is woefully over-the-top, making a heavy meal out of the character's non-U nursery talk and utterly missing the classic English joke of her romantic social pretensions ("You have the air of lost wealth... Did Dr Barnardo give you a bad time?").

Michael Cashman does better as her brother Ed, but he usually stresses the creepy side of Ed's homoerotic desires while not know-

ing how to make them disarmingly funny. As Mr Sloane, who seduces them both, young Ian Pepperell (though physically too slight) has the right inscrutability, but not nearly enough skill in nuance. Sloane is a heartless thug who fools people he is an innocent - an innocent in need of firm guidance; and his deadpan account of his sporting... activities should be irresistible.

When Orton is not well enough acted, his originality dissolves. Watching the Birmingham *Loot*, however, you are aware of little but Orton's subversive novelty. Each

character is consistent, but there is just enough absurdity in the air for us to be underminded by hilarity.

Too much absurdity, actually. Most of the cast - especially Cashman as Inspector Truscott - have such fun with Irish or Scouse accents that they stress some words more for sound effect than for sense. Still, Cashman plainly relishes his role; as does John Rogan as the bewildered widower Mr McLeavy. Pepperell's Hal and Ian Targett's energetic, nervous Dennis give fluent accounts of the two unscrupulous young coffin-doling bank-robbers. Fayerman, as the much-

married killer nurse Fay McMahon, still overdoes the busy gestures and *oeillades*, but here she adopts the right basic stovity. (Good Orton must hover persistently on the brink of camp.)

Wittily, Kate Owen has located the two plays next door to each other, in two halves of one semi-detached house on the same revolving stage. Two of the problems in *Sloane* are that she obliges us to see action (in the kitchen, or upstairs) that Orton meant to occur offstage, and that she shows us the flock of cuddly-toys that Kath keeps in her bedroom. (Doesn't much of Orton's essence always lie in what he does not show us?) In *Loot*, however, we see little save what Orton meant us to see, and the comedy of what is seen and unseen flourishes.

At the Birmingham Rep.



ATHENS

Megaron Tomorrow: Anna Tomova-Sintova sings opera arias. Nov 8, 10, 12: staged production of Poulenc's *La voix humaine*, starring Jeanne Pélou. Nov 13-16: Bolshoi Ballet (01-728 2333/01-722 5511)

BOLOGNA

Teatro Comunale Sat, Sun: John Nelson conducts Orchestra of the Teatro Comunale in works by Tchaikovsky and Shostakovich, with piano soloist Grigori Sokolov. Mon: Luciano Berio conducts O.R.T. Orchestra della Toscana in *Madama Stravinsky*, Ghedini and Berio, with viola soloist Aldo Benetti. The opera season opens on Nov 26 with a new production of Rossini's *I turco in Italia* (No telephone bookings. Information: 051-529999)

GENOA

Teatro Carlo Felice Tomorrow, Sat: afternoon: Spiros Argiris conducts orchestral works by Stravinsky, Respighi, Debussy, and

Rimsky-Korsakov, with clarinet soloist Romolo Tisano. The opera season opens on Dec 2 with *Der fliegende Holländer* (No telephone bookings. Information: 010-589329/010-5381 225)

LONDON

THEATRE

● Hamlet: the Globe Theatre re-opens tomorrow as the Gielgud with Peter Hall's new production of *Hamlet*, starring Stephen Dillane, Michael Pennington, Donald Sinden, Gwen Taylor and Gila Bellman (Gielgud 071-494 5065)

● The Prime of Miss Jean Brodie: Patricia Hodge takes on the role of the formidable schoolteacher whose mix of romance and wilfulness inspires her pupils. This is the first major London revival since 1968 of Jay Presson Allen's stage version of Muriel Spark's novel (*Strand* 071-930 8800)

● Romeo and Juliet: Dusseldorf Schauspielhaus presents Karin Beier's German-language production of Shakespeare's play tonight, tomorrow and Sat. This is the first in a series of international Shakespeare events at the Barbican, which will include an adaptation of King Lear from Japan (Nov 9-12) and Peter Sellers' Chicago production of *The Merchant of Venice* (Barbican 071-638 8891)

● A Passionate Woman: Ned Sherrin directs a new production of Kay Mellor's play, first seen at the West Yorkshire Playhouse last year. Stephanie Cole stars as the housewife whose passion for life breaks out to the horror of her family. Now in previews. Press night on Mon (Comedy 071-369 1731)

● Moscow Stations: a one-person play, starring Tom Courtenay, inspired by Venedikt Yerofeyev's acclaimed modern Russian tale about an alcoholic who stumbles and dozes his way through a series of surreal adventures (Garrick 071-494 5085)

● The Seagull: Judi Dench's Arkadia heads a splendid cast in Pam Gems' new version of Chekhov's play about disappointed aspirations. In repertory at the National with *The Devil's Disciple*, Bernard Shaw's 1897 satire on melodrama, and *Racing Demon*, David Hare's play about tensions in the modern Anglican Church (National 071-928 2252)

● The Children's Hour: Harriet Walter and Claire Higgins head the cast in the National Theatre's new production of Lillian Hellman's 1934 drama about lesbianism, directed by Howard Davies. In repertory at the Lyttelton with Tennessee Williams' *Sweet Bird of Youth* directed by Richard Eyre, and Arthur Miller's new play *Broken Dreams* (National, Lyttelton 071-928 2252)

● Arcadia: Trevor Nunn directs Tom Stoppard's complex but often funny drama that won the 1994 Olivier Award for Best Play (Haymarket 071-930 8800)

● She Loves Me: the charming 1963 Masteroff, Bock and Harlick musical about two longtime pen pals who don't know they work in the same perfume. Ruthie Henshall and John Gordon Sinclair head the cast (Savoy 071-636 8888)

● OPERA/DANCE Covent Garden The Royal Ballet opens its 1994-5 London season tonight with a gala performance of Anthony Dowell's new production of

Sleeping Beauty (repeated Nov 7, 18, 19, 23, 26). The company also has an Ashton celebration opening next Thurs. The Royal Opera's new production of *Romeo et Juliette*, staged by Nicolas Joel and conducted by Charles Mackerras, can be seen tomorrow with cast led by Roberto Alagna and Leonina Vaduva (repeated Nov 9, 12, 15, 17). Gwyneth Jones stars in *Turandot* on Sat (071-304 4000)

● Coliseum English National Opera has final performances tonight and next Wed of Ian Judge's new production of Massenet's *Don Quichotte*, with cast headed by Richard Van Allan. *Ariadne auf Naxos* is revived tomorrow with Jane Eaglen in the title role (till Dec 14). Repertory also includes Die Zauberflöte (071-836 3161) Sadler's Wells Siobhan Davies Dance Company gives the world premiere tomorrow and Sat of Davies' new choreography entitled *The Glass Blew In*, Nov 8-19: Northern Ballet Theatre in Christopher Gable's touring production of *Ginderella*, music by Philip Feeney (071-278 8916)

● CONCERTS South Bank Centre Tonight: Alexander Lazarev conducts BBC Symphony Orchestra in works by Tchaikovsky, Rakhmaninov and Schnittke, with piano soloist Peter Jablonski. Tonight (QEII): Tabeta Zimmermann, Michael Collins and Imogen Cooper play chamber music. Tomorrow: Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra in Schumann and Mahler, with piano soloist Cristina Ortiz. Sat: Maurizio Pollini plays Beethoven piano sonatas. Sun afternoon: Bernard Haitink conducts Orchestra

and Chorus of the Royal Opera House in Ravel, Mozart and Brahms, with piano soloist Murray Perahia. Sun evening: Mariss Jansons conducts London Philharmonic in Debussy, Ravel and Stravinsky, with piano soloist Krystian Zimerman. Sun (QEII): Hans Zender conducts Ensemble Modern in his composed interpretation of Schubert's *Winterreise*. Mon, next Thurs and Sun: Nikolaus Harnoncourt and the Philharmonie Orchestra continue their cycle of Beethoven symphonies. Mon (Purcell Room): Nash Ensemble with tenor Robert Tear. Tues: Yuri Temirkanov conducts RPO in Prokofiev, Schnittke and Rakhmaninov, with piano soloist Dmitri Alexeev. Wed: Alexander Lazarev conducts BBCSO in Avert Terteryan's Seventh Symphony (071-928 8800)

● Barbican Tonight: Mstislav Rostropovich conducts London Symphony Orchestra in music inspired by Shakespeare's plays. Tomorrow: Hobart Earle conducts Odessa Philharmonic Orchestra in Glinka, Rakhmaninov, Skoryk and Brahms, with piano soloist Arnaldo Cohen. Sat: Neeme Järvi conducts Gothenburg Symphony Orchestra and Tallis Chamber Choir in Sibelius' *The Tempest*. Next Tues and Wed: Seiji Ozawa conducts LSO in world premiere of new cello concerto by Rodion Shchedrin, with soloist Mstislav Rostropovich (071-638 8891)

MILAN

Teatro alla Scala Tonight: Ballet of La Scala in works by Balanchine, Tudor and Lander. Tomorrow, next

Tues, Wed, Thurs: Kenneth MacMillan's *Manon*. Sun: Dmitri Alexeev piano recital. Mon: Jean-Claude Malgoire conducts Vivaldi. Nov 14, 16, 17: Murray Perahia plays Mozart. Nov 21: Teresa Berganza. Dec 7: opera season opens with Die Walküre (02-7200 3744)

PRAGUE

State Opera Tonight: new production of Gottfried von Einem's *Kafka opera Der Prozess* (repeated Nov 27, Dec 28). Repertory also includes *Un ballo in maschera*, *Nabucco*, *Aida* and *Hans Krása's* 1933 opera *Verloren im Traum* (02-2421 5031)

Rudolfinum Tomorrow evening, Fri afternoon: Zdenek Kosler conducts Czech Philharmonic Orchestra in works by Smetana and Richard Strauss (02-2489 3352)

ROME

Georges Prêtre, conducts the Orchestra dell'Accademia Nazionale di Santa Cecilia on Sat, Sun, Mon and Tues in works by Strauss, Dukas and Roussel. Other visiting artists in the pre-Christmas period include Vladimir Spivakov, Cecilia Gasdia, Christian Thielemann, Gennady Rozhdestvensky and Carlo Maria Giulini. All concerts take place at the Auditorio di Via della Conciliazione (06-6880 1044)

ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

European Cable and Satellite Business TV (Central European Time) MONDAY TO FRIDAY NBC/Super Channel FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY NBC/Super Channel: FT Reports 1230.

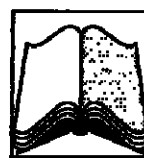
TUESDAY Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY NBC/Super Channel: FT Reports 1230

FRIDAY NBC/Super Channel: FT Reports 1230 Sky News: FT Reports 0230, 2030

SUNDAY NBC/Super Channel: FT Reports 2230 Sky News: FT Reports 0430, 1730;

Why pay should be linked to success



BOOK REVIEW

"Executive remuneration is both a highly complex and a highly emotive subject," is Anthony Williams's conclusion to this guide to executive pay. About that there is no argument, and a book that is able to establish both the facts of the matter and a coherent approach deserves a wide circulation.

The studies quoted by the author demonstrate beyond doubt that something has happened to top executive pay over the past 10 years or so that is not accounted for by inflation. Nor can it be more than partly explained by the catch-up needed after a decade in which executives' net pay fell in real terms.

Large institutional investors such as Postel are often accused - as Williams does in this book - of being critical of executive remuneration. That is a misrepresentation of our position, however. Apart from requesting that reward is related to the success or otherwise of the company, as seen by shareholders, we make no such sweeping statement. Except in extreme cases, institutions cannot pontificate about the levels of pay that a board votes for its executives. I have enough difficulty in determining the correct pay levels for my own executives, let alone those in industries of which I have only a sketchy knowledge.

Where the investor has a legitimate concern is in ensuring that the interests of the executives and the shareholders are aligned in determining the structures by which pay is determined and the various rewards available.

In the past, many senior executives had substantial shareholdings in the company for which they worked. Shares were held by family members, not by professional investing institutions.

It is the rise of the professional manager that has created the need for new structures. The investing institutions demand a check on the otherwise unfettered power of the executives, who might be tempted to live well at the shareholders' expense.

JUST REWARD The Truth About Top Executive Pay By A.P. Williams Kogan Page, £25

A remuneration committee, made up of independent non-executive directors, is a body that should give us that confidence. Unfortunately, it does not always do so.

Too often these committees seem to be reactive rather than to think for themselves. They interpret the mantra of remuneration policy - that a package should be able to recruit, retain and motivate good management - as an invitation to follow the consensus on what the marketplace demands.

This is where the consultants, among whom Williams is counted, must take some of the blame. As he says: "There is at least one well-known firm of consultants which is believed to be used by certain companies... because it recommends the high figures that their chief executives prefer."

Almost every company falls into the trap of wanting to reward its executives at top quartile levels (fund managers offer similar promises to potential clients). Yet three-quarters of companies will not be in the top quartile: it reminds me of the Labour cabinet minister of the 1970s who longed for every worker to be paid more than the average wage.

Linking executive pay to average market levels is simply a game of leapfrog. Each company and each job is different, and a different combination of reward will be needed to recruit the right management.

On what the combination should be, Williams's view is broadly compatible with Postel's:

● A reasonable base salary, out of which a senior executive can lead a comfortable - but not excessive - existence.

● A short-term bonus, of limited size, dependent on demanding short-term targets on internal forecasts or budgets being met.

● A long-term bonus, perhaps capped only at a high level, dependent on the performance of the company, as perceived

by the shareholder, over at least three years.

The hurdle for the latter might be a measure of shareholders' total return, against a suitable peer group. Boots, for example, uses a mixture of retailers and drug companies for comparison.

There is no place here for conventional share options. They were a reasonable device when marginal income tax rates were between 80 per cent and 98 per cent, but have no clear role today.

Many companies now prefer to create trusts in restricted shares, to which executives get access after a period of service. The scheme run by Reuters, the news agency, for example, allocates shares after three years, but the shares cannot be sold for another two years. This is a better way of retaining the services of a successful executive than any contract.

Williams and I do not disagree much on the question of executives' contracts either: the three-year rolling contract is almost impossible to justify. A three-year fixed contract which is succeeded by a one-year "roller" should be enough to attract someone away from a secure job and offer protection against a breakdown in relations at an early stage.

A good executive, asked to leave for reasons other than lack of competence, will not find it difficult to be recruited elsewhere; the market knows the truth. The way to ensure that executives take the risks necessary to build businesses is to offer substantial rewards when their risk-taking has borne fruit in the long-term performance of their company.

The 1994 Hay survey of executive contracts shows a fall in their average term, with three-year contracts no longer in the majority for directors other than chief executives. Perhaps that will convince the 37 per cent of companies which are waiting to "see what others will do, and will follow the market norm" that their time has come to move.

Alastair Ross Goobey
The reviewer is chief executive of Postel Investment Management

The danger of trying to look at too many signposts at the same time is that the driver will be dazzled. This seems to have happened with Tuesday's Bank of England Inflation Report.

The headline news about lower inflation, actual and expected, gave one message to the markets. The warnings of the concluding section on the upward risks to the forecast, which the Bank in the end decided to stress, gave another. So the financial markets did not immediately realise the Bank was trying to signal the need for a bias towards higher interest rates, whether or not implemented this month.

These misunderstandings came from an attempt to be too pragmatic and flood us all with information, which is valuable for the record, but needs to be co-ordinated by a central vision. The source of the confusion is that the upward pressures on both economic activity and prices have increased. But they are being imposed on an economy operating at a lower rate of inflation than anyone had dared to hope. Thus the aircraft is quite likely to be buffeted by upward moving air currents; but it is starting from much nearer the ground than the navigator previously realised.

The Bank's most favoured underlying measure of inflation, known in the trade as RPI-X, excludes indirect tax increases as well as mortgage interest payments. On this basis inflation has been running at a seasonally adjusted annualised rate of 1.7 per cent over the last three months. There are other underlying indicators which give still more favourable results.

The risk of future upward inflation movements comes from the pressure of output on productive capacity. One attempt to measure this pressure is to look at the deviation of output from its trend, starting from the bottom of the recession. The Bank's chart (not reproduced here) shows that, although there is more unused capacity than at the corresponding period in the early 1980s, it is still being rapidly eroded. The Bank estimates that nominal GDP is now rising by 5 per cent per annum, as I suggested on Monday. This is the appropriate rate at which to aim, but not a basis for complacency when subject to upward pressures coming especially from the price component.

The crucial point is that the pressures on capacity are not confined to the UK. They are

ECONOMIC VIEWPOINT Information dazzle at the Bank

By Samuel Brittan

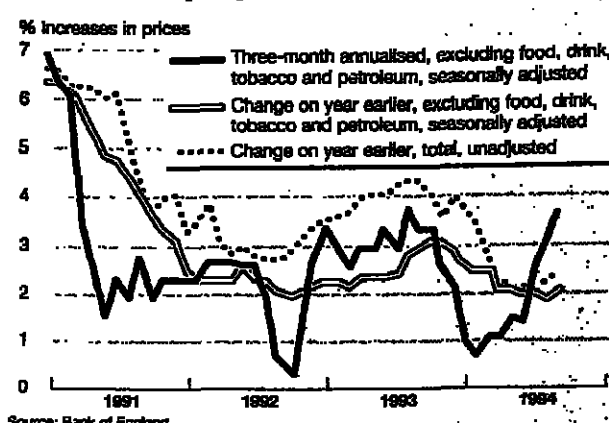
being felt worldwide, outside Japan. One main channel of transmission is through rising international commodity prices, which have had the effect of boosting UK "imported inflation" to 6 per cent per annum. This is one reason why the balance of firms in CBI surveys expecting to raise prices has reached 22 per cent, seasonally adjusted, the highest since 1980.

Another factor insufficiently stressed by the Bank is that, under the influence of strengthening world markets and a highly competitive pound, British producers are beginning to summon up the courage to pass on cost increases in factory gate prices. There is no need to gaze at the crystal ball. The chart shows that producer prices, excluding the food group, are already rising at an annualised rate of 3.6 per cent.

So far, the upward forces at the producer level have been held at bay by intense competition in UK retail markets. The Bank agonises over how long this countervailing pressure will continue. But even if there has been a structural change in the retail trade, the squeeze on margins is essentially a one-off event which cannot be relied upon to hold down inflation in future.

The Bank, which will have seen the Treasury's pre-budget forecast, expects the rise in output to slow down. It also emphasises the current near-zero increases in unit wage costs. But the latter are already coming under threat from the tightening labour markets and the tendency of productivity increases to slow down as full capacity operation is approached. Above all the Bank needs to put more emphasis on the interrelation between unexpectedly rapid growth rates in different parts of the world. These are understated by the overseas chapter in the November Bulletin, which does not go beyond the inevitably dated official figures for countries outside the UK.

Producer output price inflation



Source: Bank of England

UK paying way with payments deficit (£bn)

	Average 1982-88	1989	1990	1991	1992	1993	1994 H1
A Current balance	-4.1	-19.0	-9.2	-9.8	-10.3	-10.3	-2.4
B Identified capital flows (inflows -)	-1.9	-18.2	-9.6	-3.4	-8.3	-1.4	-1.4
C Revaluations	4.7	-41.4	11.5	15.7	18.0	6.4	6.4
Of which:							
Exchange rates	-20.8	10.3	45.6	4.0	1.8	1.8	1.8
Portfolio investment	-18.0	3.2	27.7	0.2	1.0	1.0	1.0
Direct investment	-14.2	6.4	27.8	3.0	2.7	2.7	2.7
Other net assets	12.4	0.7	-9.7	0.8	-1.9	-1.9	-1.9
Securities price effect	-14.1	9.5	-13.3	12.7	22.7	22.7	22.7
Other	-6.5	-3.7	-16.5	1.3	-18.2	-18.2	-18.2
D Change in identified assets	2.8	-59.6	2.9	12.3	8.6	4.9	4.9
E Net asset level	65.0	-4.8	-1.7	18.6	20.3	25.2	25.2
F Balancing items (B-A)	2.3	0.8	-0.4	6.5	2.0	1.0	1.0

Source: Bank of England

The Inflation Report talks of the risk of inflation "in two years' time" going above its central forecast of 2½ per cent. If this means a few decimal points above, and that were to be the peak, no sensible chancellor need lose sleep. The real risk is of a cumulative upward movement going much higher and extending much longer. Then why not say so directly - instead of in casuistical terms which can be easily demolished by the soft money brigade, as the Bank was by the Times leader yesterday? The fragile nature of the present low-inflation achievement is evident in the obstinate belief of most wage earners that

inflation will be stuck at 4 per cent for the foreseeable future.

International Black Holes

One disadvantage of making the Inflation Report into a separate publication is that it detracts attention from the Bank's Quarterly Bulletin, which appears on the same day and often has fascinating information buried within it.

One example is the table showing how loose is the connection between the current balance of payments, about which some people fret so much, and the net asset position of UK residents. In both

1992 and 1993 the UK had an estimated current payments deficit averaging £10bn per annum. Yet the net overseas assets of the UK rose in value by slightly more than these sums. The same pattern has appeared so far in 1994 although with a much lower deficit. In 1990 on the other hand there was a drop in identified net assets three times as large as the payments deficit.

The main reason for these discrepancies is "revaluations". If there is a rise in Wall Street, British holders of US securities will obviously gain. A more paradoxical effect arises from currency changes. The UK had a very large net gain in 1992 when sterling was devalued following its departure from the ERM. The reason is that assets denominated in foreign currencies then showed a large appreciation when converted into sterling.

The balance sheet benefits from devaluation are counter-intuitive. The only way to get around them is to express net assets in a single external currency such as dollars or as a proportion of GDP. In addition very long averages need to be taken to smooth out extremely large, erratic swings.

If this is done we see that the UK built up a modest overseas net asset position during the years of large oil surplus, which was subsequently run down, but is still on average slightly positive. The big change in the last decade is in the US, which has apparently moved from positive net overseas assets of nearly \$400bn to a negative asset position of \$600bn. Many US business economists are highly suspicious of this supposed deterioration because they believe that the estimates underestimate American direct investment abroad.

The Bank of England Bulletin also shows how both the US balance of payments deficit and Japanese surplus are offset for the time being by short-term capital flows. But the writer goes out of his way to stress this change does not necessarily make the imbalances "any less sustainable".

The deeper truth is that entities such as countries do not have either surpluses and deficits or positive or negative net assets. These belong to individuals, corporations and other organisations including governments. The international payments figures are only useful if this health warning is always borne in mind.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Need to assess risks of fuels

From Mr D A Gidlow

Sir, It is a pity Michael Pettman (Letters, October 29) has misunderstood the main argument in the debate over fuel composition. It is true that the level of benzene in petrol is controlled but this is irrelevant as other aromatics in the fuel undergo change during combustion to form benzene. It is therefore theoretically possible to have a fuel with no benzene but to have significant quantities in the exhaust gases.

Many scientific publications have shown this clear relationship between total aromatic content and benzene emissions. From the data, a recent study has shown that premium unleaded will emit around 20 per cent more benzene than leaded and super-unleaded will emit 30 per cent more benzene, if used in cars not equipped with catalytic converters.

Both the select committee and the Royal Commission on Environmental Protection were unanimous in their call for super-unleaded, with the highest average aromatic content, to be banned. In view of the widespread concern over benzene, it is surely time for the government to undertake a full risk assessment of the various types of fuel and their appropriate uses.

D A Gidlow,
company medical officer,
The Associated Otel Co,
PO Box 12, Old Sites Road,
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South Wirral L65 4HF

UK is unaware that name of competitive game has changed

From Mr R A Bischof

Sir, With reference to Robert Barro's Personal View (November 1), as a German businessman who has lived and worked in the UK for more than 25 years, I have to agree with shadow chancellor, Gordon Brown's view on "endogenous growth", rather than chancellor Kenneth Clarke's.

The reasons are simple: First, "hands-on" government in industrial policy, export support, regional aid, research and development projects, training and skill developments, etc, is happening in all the countries Britain is competing against - at a significant rate.

Second, the very nature of the Anglo-Saxon model, with its focus on short-term profit maximisation, makes it harder

for UK companies to compete against their long-term, market share-oriented Asian and Continental European competitors. In other words, the UK is severely handicapped in two ways by hanging on to the theory of pure non-interventionist capitalism - without having noticed that half the world (the successful half) has changed the rules of the game.

Whether this is plain ignorance or an ideological trap is irrelevant. The result has been a steady decline of UK manufacturing industries over 25 years - and there is no improvement in sight.

R A Bischof,
chairman,
Boss Group,
Grovebury Road,
Leighton Buzzard,
Bedfordshire LU7 8SR

Flawed and explosive

From Michael Goldman

Sir, The insurance industry is rightly being pilloried for mis-selling personal pensions. When is the government going to accept responsibility for setting up the whole rickety framework? The concept of portable pensions was laudable but the practical realisation has been badly flawed.

The Securities and Investments Board should prepare the public and life insurance industry for the explosion of the next time bomb. This will be when the time comes for employees of certain ages in non-pensionable employment who contracted out of state earnings related pensions (Serps) to contract back in. Independent financial advisers who sold them personal pensions have no incentive to provide this advice. Michael Goldman,
1 Lyndale Close,
Blackheath, London SE3 7RG

Demand for capital behind rate rises

From Mr Barry Wheelock

Sir, Since January, the US has put up interest rates five times. High yields on fixed interest have become more attractive to institutions, putting pressure on equities. That is why, by October 21, the FT-SE 100 had fallen 12.25 per cent.

These rises are America's pre-emptive strikes to prevent inflation. The markets are still nervous about inflation and

the implications of further rises in interest rates. Yet there is minimal sign of inflation anywhere in the world, apart from a few commodity prices. So is this the real explanation of the markets' current uncertainty? We are beginning to think not.

Five years ago, China began capitalist-type expansionist developments, but had hardly drawn on the world's capital. Nor had Latin America, Hun-

gary, Poland, Czechoslovakia, East Germany. India is now open for business, as well as all the Russian satellites. Given the increased demand for the world's capital, surely this is the main reason for the recent rises in interest rates, not inflation.

Barry Wheelock,
director,
SWG Investment Services,
2 Deansway,
Worcester WR1 2JD

Director's status crucial to LSO position during inquiry

From Mr Clive Gillinson

Sir, Richard Fairman, in his review of the London Symphony Orchestra's Gala concert ("Tireless Solti fires up LSO", October 27), raises the issue of the LSO's role during the Hoffmann inquiry in 1993. There was one crucial issue centrally affecting the public position the LSO took - that I am chairman of the Association of British Orchestras (ABO), as well as being managing director of the LSO.

After the Arts Council announced its funding decision for London orchestras in July 1993 and set up the Hoffmann Committee, I offered my resignation as chairman of the ABO if the board felt that my continuing as chairman would create any conflict of interest. The ABO board unanimously asked me to remain.

As the chairman of the ABO is always the manager of an orchestra, there can be times when the chairman's orchestra will be centrally involved in an issue the association has to deal with. It is the policy of the association that, on these occasions, it should be represented solely by its director, which was the case in 1993. Libby MacNamara, the director, ran all the meetings on this subject and publicly represented the

ABO position extremely effectively. Furthermore, during the Hoffmann inquiry, the Musicians' Union called a meeting to consult players from the London orchestras about their views on the very serious implications of the inquiry and to co-ordinate solidarity between the orchestras. By far the greatest number of orchestral players from any of the four London orchestras who attended that meeting were LSO members; this does not indicate an orchestra which was not involved.

Fairman also raises a point about the LSO Millennium Fund. In the difficult economic climate in which the LSO and all the UK orchestras are working, the LSO players have taken no fee rises for the past three years in order to fulfil the orchestra's commitment to the high artistic standards it has set itself. The LSO Millennium Fund has been established to endeavour to try to secure the orchestra's future and those very standards we have worked so hard to achieve. Clive Gillinson,
managing director,
London Symphony Orchestra,
Barbican Centre,
London EC2Y 8DS

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Thursday November 3 1994

Banking on regional peace

The Casablanca conference on Middle East economic development has played a valuable role in dismantling psychological barriers. It also came up with a concrete proposal to that end, in agreeing to work towards the creation of a regional development bank. Pan-regional economic institutions - on trade, for example, and water - will be essential if peace is to be consolidated and trust built between ancient enemies. It is questionable, however, whether a bank is the best means to that end.

Putting flesh on the bare bones of the proposed Middle East and North Africa Development Bank, and achieving a funding target of \$10bn, will prove challenging. The yet to be selected "group of experts" who will examine policy options for the bank should look closely at the chequered history of others in Asia, Africa and the Americas. One obvious lesson is that regional development banks have fared best when operating in relatively well-managed economies where project lending might have a better than average chance of proving profitable.

The experience of the African Development Bank shows how difficult this can be. At the end of last year, over 39 per cent of its outstanding loans were to just four countries: Morocco, Tunisia, Egypt and Algeria, the last two scarcely models of third world development. The percentage of loans going to the north of the continent is predicted to increase as investment opportunities

decrease in sub-Saharan Africa. Significantly, those four countries would expect to be members of, and beneficiaries from, the new bank, an unnecessary duplication which cannot be left unresolved. Similar problems exist with the potentially overlapping activities of the Arab Fund for Economic and Social Development and the Islamic Development Bank - not to mention the World Bank itself. The management of any new bank would need simultaneously to make Herculean efforts to loosen the link in the Middle East between politics and economic assistance. Arab countries bordering Israel have long been rewarded by one paymaster or another, according to political stance, not to economic performance. Israel still enjoys substantial and largely uncritical US assistance, while the Palestine Liberation Organisation is already showing all the symptoms of the aid addict in its demands for unfettered cash assistance.

Regional governments will continue to emphasise the threat of Islamic extremism in an effort to ensure that political aid is not reduced. But it has been the very failure of those regimes to manage their economies efficiently which has created the conditions in which extremism flourishes.

It is welcome that Middle Eastern governments are discussing ways in which they can work together. But a bank along the lines suggested is not the best form of co-operation - and certainly should not be the only one.

Postal fudge

The UK government has got itself into an extraordinary tangle over its plans to privatise the Post Office. But the problems are of its own making, and it could out the Gordian knot if only the Treasury would adopt a less blinkered attitude than it has until now.

The issue is simple: can the Post Office be freed from Treasury control if the government continues to hold a large majority stake in the business? Mr Michael Heseltine, trade and industry secretary, has been telling Tory MPs that the Treasury will not loosen its grip unless a majority stake is in the private sector, because of rules about the compilation of the public accounts and concerns about the ultimate liability for the debts of a privatised Post Office.

It appears the Treasury might, after all, be prepared to countenance a relaxation of control if the state share were limited to 51 per cent. But even that may not be enough for disgruntled Tory MPs, anxious to avoid confronting electors with a cause as unpopular as selling off the Royal Mail.

Opposition to postal privatisation is motivated mostly by ignorance or by wilful misrepresentation. Concerns over the future of village and high street post offices have been met by government guarantees to retain the Post Office's counters division in the public sector. A postal regulator would be charged with controlling stamp prices and protecting universal collections and deliveries. On the experience of British Telecom, a regulator would very likely do a better job

of defending consumers than does the government now.

Yet allowing for the political position, an obvious course suggests itself provided the Treasury is prepared to show the necessary flexibility. The Post Office should be constituted as a public limited company. Only a small minority of the share capital - say 10 to 20 per cent - would be sold off, but a statutory bar would be placed on state aid, and the government would give a statutory commitment to exercise no more than the ordinary rights of a majority shareholder to receive dividends and control broad strategy. The Treasury should then let the Post Office operate freely.

Treasury theologians will doubtless shake their heads, but such a policy may be the best way forward in the circumstances. The Post Office is a profitable enterprise, and has been run on business lines for more than a decade. It is not, therefore, a precedent to free the few other remaining public sector enterprises from the Treasury's control.

Of course, the government's commitment not to rescue a failing Post Office is only as good as its statutory word. But equally, the state can use - and in the past has used - its power to rescue failing private companies, so the same argument could apply to any strategic industry. In practical terms, granting the Post Office freedom to develop its national and international business is less likely to lead to reliance on the taxpayer than is a continuation of the status quo.

Swan song

Today an era ends on Tyneside, in the UK's north-east, when the HMS Richmond, the last of 2,700 ships built by the 134-year-old Swan Hunter shipyard, leaves the river. Next week it will be handed over to the Royal Navy, its departure from the Wallsend yard signals the company's closure and the probable end of shipbuilding on the Tyne.

Swans have been in receivership since May 1993, and the closure of the north-east's last shipbuilding yard is hardly a surprise. But it is nonetheless of great symbolic importance: it underlines the region's decline over a century as one of the world's leading centres of heavy industry.

Of more practical consequence, the closure will cost jobs in an area with the highest regional unemployment rate on the British mainland. Swan Hunter employed 2,400 people when it went into receivership; it now has only 400 left, most of whom will go within days, although sales of subsidaries have preserved some jobs.

Those losing their livelihoods might well ask why the government has seen fit to use public funds to attract inward investment to the region, such as the electronics factory opened by Samsung, but would not prop up Swan Hunter. The sums should be kept in perspective; while the region is economically depressed, it will continue to receive large transfers from central government in the form of unemployment benefits, which dwarf the industrial subsidies in question.

That point made, the government's strategy in backing Samsung is right. The Samsung project, which could bring 3,000 jobs to the region, has received £80m out of the £450m total cost of the project in government and regional subsidies. However electronics is a growth industry, and the record of inward investment in providing training, jobs and growth is good, particularly in the north-east, which prides itself on being the magnet within the UK for far eastern manufacturing investment.

No such case could be made for Swan Hunter. It has been increasingly dependent on military work, a dwindling market. Moreover, the cost-plus basis of many contracts has encouraged a high-quality but high-cost culture ill-suited to the demands of world competition. While shipbuilding is clearly not dying worldwide, civil orders are pursued ferociously by South Korea and Japan; indeed the OECD has warned that planned Korean expansion could lead to overcapacity and international price-cutting wars. It is far from clear that subsidising Swan Hunter would have enabled it to compete. France, which has subsidised its industry heavily and has threatened to veto limits on such aids agreed in the OECD this summer, has nonetheless seen its industry decline.

The north-east's record in attracting inward investment is admirable. That is of more future value than propping up dying symbols of its past success.

At first glance, Indonesia is an improbable place to celebrate the virtues of free trade. The economy has for years been one of the most protectionist in south-east Asia.

The presidential palace in Bogor, near Jakarta, will nevertheless be the venue for this month's Asia Pacific Economic Co-operation (Apec) summit, to be attended by US President Bill Clinton and the leaders of 16 other Pacific nations. If free traders have their way, the November 15 summit will set a target date for free trade across the Pacific of 2020, or even 2010.

Mr Suharto sees the summit as the clearest sign yet of Indonesia's growing stature on the world stage, and is determined to make it a success. He has surprised even his own cabinet ministers with vigorous endorsements of free trade in the run-up to the conference.

There has been a progressive liberalisation of Indonesia's trade and investment regimes in recent years. Average tariffs, for example, have fallen from 37 per cent to 20 per cent in the last decade. But the economy remains protected with visible and invisible barriers and is ill-prepared to compete in a free market.

Mr Suharto's sudden enthusiasm for free trade is typical of the enigmatic army general, who has ruled with his "New Order" government since 1966. The president, who calls himself the "Father of Development", has presided over average annual economic growth of 8 per cent for the last quarter of a century. Foreign investment in the world's fourth most populous nation, with 187m people, has been encouraged. Textiles, shoes and electronic goods have joined timber, oil and gas as important exports industries.

The west has started to pay attention, with the US commerce department last year proclaiming Indonesia a "big emerging market". Tempted by Indonesian proposals to spend the equivalent of \$50bn on everything from power stations to telephones under its new five-year plan, the US has chosen Jakarta as the Asian site for a "US Commercial Center", to help US investors and exporters.

In an Independence Day speech in August, Mr Suharto said Indonesia wanted to quadruple real per capita income (at present about \$800 a year) in the next 25 years, through industrial development. "We shall continue deregulation and de-bureaucratisation," he said. "The goal is to prepare for a highly competitive economy that can survive in the increasingly unified and competitive global economy."

However, he added a puzzling afterthought: "Deregulation and de-bureaucratisation certainly do not

Unlikely champion of free trade

Victor Mallet says Suharto's protectionist instincts make Indonesia an improbable venue for the Apec summit

mean setting up a liberal economic system that allows free competition."

This inability to reconcile his professed belief in free enterprise with his protectionist instincts, is one of several unresolved dilemmas in economics and politics that confront Indonesia as the president grows older and the economy larger.

Another is the domination of domestic business by conglomerates with ties of blood or friendship to the Suharto family. The president has declined to curb the commercial ambitions of his children or his small coterie of ethnic Chinese business associates. Between them, they use their position to acquire lucrative stakes in almost every big investment project.

Typical is the new \$1.7bn Chandara Asri petrochemicals plant at Anyar, on the west coast of Java. The partners in the project include Mr Bambang Trihatmodjo, one of Mr Suharto's sons, and Mr Pradjono Pangestu, one of his friends. The government has offered a 40 per cent tariff on imports to support the venture, to the fury of some businessmen who fear the higher costs will damage their competitiveness.

Another example of the arbitrary way Indonesia is run came to light in July, when it emerged that Mr Suharto had decreed the transfer of Rp400bn (£113m) from a reforestation fund to IPTN, a state aircraft manufacturing venture managed by Mr B.J. Habibie, the minister of research and technology and another friend of the president.

Environmentalists, including a prominent group called Walhi (Indonesian Forum for the Environment), have taken the president to court, demanding the reversal of the decree and asking for Mr Suharto to be fined Rp5m. "A lot of people warn us that, after Apec, Walhi will be harassed because of this action," said Ms Emmy Hafid of Walhi.

The acceptance by the court of the case for a hearing is attributed to the official policy of *keterbukaan* or openness in recent years. But after a brief period of vigorous debate in the media over politics and economics, openness is already in retreat.

In June, the government banned three leading publications, appar-



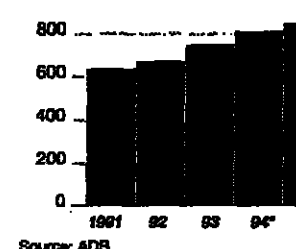
Indonesia: a big emerging market

	Exports (\$bn)	Imports (\$bn)	Current account balance (\$bn)	(% of GDP)
1991	29.4	24.6	-4.1	-3.5
1992	32.5	26.5	-3.7	-2.9
1993	35.8	29.1	-3.0	-2.1
1994*	36.3	32.3	-2.9	-1.9
1995*	43.3	35.9	-2.9	-1.5

Real gross domestic product

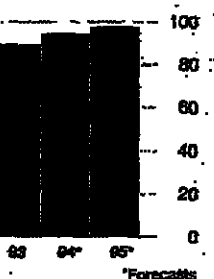
Per capita (\$)

Source: ADB



Total external debt (\$bn)

Source: ADB



ently because they mentioned the sensitive issue of the succession to Mr Suharto - he has declined to name a successor or say if he will step down - and reported on a dispute between the armed forces and Mr Habibie over his decision to buy the 39 warships of the old East German navy.

Both Mr Suharto and the armed forces say strong government is needed to control ethnic and religious conflicts and prevent the disintegration of Indonesia - a scattered archipelago extending nearly 5,000km from Sumatra in the west to Irian Jaya in the east. They do

not believe a more open political system is necessary to oversee the next stage of Indonesia's industrial revolution.

The army's leading role in politics was tolerated and even welcomed by Indonesians after the massacres surrounding the overthrow of President Sukarno in 1966. Army chiefs are now unwilling to accept a diminished role in an increasingly sophisticated, urbanised society.

General H.B.L. Manti, chief of general staff, recently said the army saw itself as the political "shepherd" of Indonesians, and insisted it would never relinquish the political

Europe: the spectre of budget deficits



PERSONAL VIEW

Over the last few months the majority of economic forecasters have been forced to raise their predictions for Europe's growth in 1994. It would seem natural to assume that there is a common factor behind this "surprising" growth, but this appears not to be the case.

The German economic recovery has been brought about by a combination of buoyant corporate sector spending and a fall in the personal sector's savings rate. Both factors can be attributed to an accumulation of money balances in each sector, which has led both individuals and companies to spend more.

It is no coincidence that the recovery has followed a period of above-trend monetary growth. Most of the hallmarks of monetary expansion are present: the current account balance has deteriorated as the national savings rate has fallen, equity prices have risen, and the yield curve has steepened.

This German monetary expansion is partly due to the Bundesbank's

action in adding liquidity to the economy when defending the exchange rate mechanism last year. It is also the product of rapid growth in domestic credit, mainly in lending to the public sector to fund Germany's budget deficit.

Over the last three years, bank lending to the public sector has accounted for between a third and half of the growth in broad money. The banking system has effectively been creating money to finance the budget deficit and this has been spent in the domestic economy, stimulating recovery.

Outside Germany, budget deficits have also played a part in economic recovery. According to OECD figures, the French budget deficit grew by the equivalent of 2 per cent of gross domestic product last year. This year, it is expected that aggregate GDP will rise by a similar amount.

Similarly, Sweden raised its budget deficit by more than 5 per cent of GDP last year but seems likely to generate economic growth of only 3 per cent this year. While these countries have seen economic recovery, the price appears to have

been large budget deficit increases. Over the past decade, many have become blasé about budget deficits. In this world of freely flowing capital, few would claim that any given budget deficit could not be financed. Unfortunately, when it requires real interest rates of more than 5 per cent, the stock of debt is compounding at twice the rate the economies themselves are capable of growing.

Public indebtedness is growing so fast one wonders where income will come from to service it

It seems surprising that this arithmetic attracts such scant attention given its implications for tax rates, inflation and interest rates in the future. Public indebtedness is now growing so fast that one is left wondering where the income will eventually come from to service it.

Furthermore, if one were to add the problem of Europe's frequently

unfunded public pensions, the debt arithmetic becomes quite impossible. Present fiscal trends leave many European states effectively no hope of fulfilling their public pension commitments in the future.

Perhaps more worrying for this generation of Europeans is the effect current budget deficits are having on Europe's economic structure.

Many countries in the exchange rate mechanism cannot allow their budget deficits to be funded by the banking system as in Germany. Such *de facto* easing of monetary conditions would clearly be incompatible with maintaining their exchange rates in the ERM.

Instead, the budget deficits of France and other countries have to be funded by borrowing from the other sectors of the economy, especially since foreigners have started to sell European bonds in significant quantities.

Given the high real interest rates on offer, it is not surprising that French investors should find current bond rates attractive. But there is evidence that French companies are foregoing capital spending and

employment creation to invest in bonds.

This surely cannot be a sustainable state of affairs. High real interest rates and low domestic rates of return on private investment are allowing the budget deficits to crowd out more productive forms of fund raising. If this continues, Europe could undergo a further loss of competitiveness and a consequent decline in its long-run growth prospects.

Europe must address its budget deficits quickly. In Germany, the persistently high monetary growth rate will eventually force the Bundesbank to raise interest rates to cool the economy.

In other EU countries, large budget deficits are not only generating an unfortunate legacy for our heirs, they are distorting the economies and will make Europe less able to compete internationally.

Andrew Hunt

The author is chief economist, Thornton Investment Management.

What am I bid?

Bob Bauman, former chief executive of SmithKline Beecham, may have been known as "Mr Restructuring" in the drug industry, but British Aerospace shareholders were left wondering yesterday whether he needed some restructuring himself, after getting rather mixed-up about BAe's bid for submarine-maker VSEL.

Urging shareholders to back the group's bid for the Barrow-based shipbuilder, BAe's new two-day-a-week chairman said the offer was worth "£14 a share".

"You mean pounds, not dollars," shouted one investor from the back of the ballroom. Hardly had he corrected himself, when another shareholder put him right again. "CEC has bid £14 a share, not BAe."

Apologising, the mastermind of the Beecham and SmithKline Beckman merger quipped "this was my first time at this sort of thing". But not the last, eh?

Spare that tree

When will the UK Forestry Commission get a chairman? Two months after the retirement of Sir Raymond Johnstone, 65, on the expiry of his five-year term, it's still lacking a leader.

Two of the three forestry ministers - Ian Lang, Scottish

secretary, and William Waldegrave, agriculture minister - favour Sir Peter Hutchison to take over. Sir Peter, 58, is a Scottish baronet who chairs a family insurance broker in Glasgow and is vice-chairman of British Waterways.

But the third minister - John Redwood, Wales secretary - fears Hutchison might favour green as opposed to commercial forestry as much as Johnstone did. Redwood might be right: Hutchison is a former chairman of the trustees of the Royal Botanic Gardens in Edinburgh and gives talks on his plant-hunting expeditions in Asia.

Redwood was thwarted earlier this year in his desire to have the Commission privatised. Has he lost another fight?

Dialling Dahling

Hard to get the measure of Jennifer D'Abo, whose resignation from the Northern Ireland Industrial Development Board has caused such a stir.

Some regard her as a female Bertie Wooster who wears heart-shaped glasses and calls everybody "Dahling". Others regard this as a disguise for an extremely astute businesswoman who is quick to spot money-making opportunities but tends to flit around, the sort who sparks larger-than-life stories.

One of Observer's favourites involves a visitor to her house on the Duke of Marlborough's Blenheim estate, who found his way

OBSERVER



blocked by giant gates. Luckily, he had a mobile phone and was able to contact D'Abo - who jumped into Miss Mink, as she called her black Mercedes, and raced down the two-mile long drive to let in her dinner guest.

Open sesame

The clamour for open government has even reached the hallowed portals of the Bank of England, which faced criticism yesterday from City analysts complaining about "misleading signals" associated with Wednesday's inflation report.

Analysts felt the report suggested there would be no rise in rates; newspapers yesterday speculated a rise was due in the coming months.

One economist, quoted by Reuters, took a firm line. "The Bank's tactics, he thundered, were 'charity an open and transparent way of conveying monetary policy messages'."

Who was this seeker of truth and light? Who knows? The economist spoke on condition of anonymity.

Minihell

The old world meets the new. Minihell, the ubiquitous French hi-tech phone computer information system, now has a handy new service. By dialling "3615 en grève", subscribers can learn of the postal, transport and other strikes currently under way. Is that a blessing or an additional curse?

Coming home

One of Shaftesbury Avenue's leading theatres - the Globe - has become the Gielgud, in honour of Sir John Gielgud's 90th birthday. Sir John was in commanding form as he accepted the honour yesterday. "In recent years I've gone down Shaftesbury Avenue many times and not recognised any of the names on the theatres. Now at least I recognise one."

He was particularly happy because he has been involved in 15

productions there - including *Hamlet* 60 years ago; and his sister worked in its box office 50 years ago.

Janet Holmes-A-Court, whose Stoll Moss chain includes the Gielgud, was happy to spend £25,000 to change the theatre's sign and place Sir John's photograph, by Lord Snowden, in the foyer.

Few actors names grace a London theatre. There is the Garrick; the Olivier, at the National; and, if you include actor-managers, the Wyndham. Sir John would like one more - for his old sparring partner Sir Ralph Richardson.

Briefs encounter

What do you call your underwear? In South Korea, the J. Enterprise company has incurred the wrath of US lawyers for marketing a range of underwear called James Dean.

Dean died at 24 in a 1955 car crash. As elsewhere, he is a popular icon in Seoul, where cafes and restaurants are named after him.

But in what is turning into a rebel without a corset clash, the US-based Curtis Management Group, representing the family and estate of the deceased film star, says J. Enterprise Ltd - which is likely to sell \$31.3m of the undergarments this year - has violated trademark laws.

Expensive business, trademark actions. Far cheaper surely to turn the other cheek.

Influence of special interest groups to be cut

Japan completes drive for political reforms

By William Dawkins in Tokyo

The final stage in Japan's dramatic five-year campaign to purge political corruption and weaken party factions' grip on power was quietly cleared in the lower house of parliament yesterday.

It was an unobtrusive climax to the most drastic changes to Japan's political system since the present constitution came into effect in 1947. The reforms have cost the lives of four governments and have introduced open confrontation into a previously cosy political consensus.

The house endorsed, with most parties' assent, a bill to redraw the boundaries of Japan's multi-seat constituencies, to create a mixed system of UK-style single-seat districts and continental European-style proportional representation.

After approval by the upper house about the middle of this month - which will be all but automatic - the new system will take effect in mid-December, after a statutory one-month delay.

for the electorate to absorb the changes. That completes a complex series of political reforms, designed to make governments more responsive to the electorate's aspirations and less dependent on the special-interest groups that support the so-called "iron triangle" of business, politics and bureaucracy.

The system will force politicians to compete harder for seats and so end the comfortable careers of dozens of older members of parliament, who fought reform because their former constituencies would cease to exist.

Reform was mooted to counter public disgust at the political class, after the Recruit shares-for-favours scandal in the late 1980s. The main part of the reform passed parliament in March. It consists of four bills to establish the new electoral system, ban business donations to individual politicians, establish a ¥30.9bn (¥25bn) annual state subsidy for political parties to compensate for the curb on funding, and set new campaign rules.

Objections by the conservative Liberal Democratic party, then in opposition, forced the government to water down the more radical original version.

After last March's agreement on the bulk of the reforms, it remained for an independent panel to draw up the new constituencies, accepted by the lower house yesterday. Two other final reform bills were also agreed: to invalidate the election victories of candidates jailed for buying votes, and to set legal qualifications to become a political party.

The LDP's return to power four months ago gave it the scope to ensure that its own softer version of political reform got through parliament. While the reforms had a smooth passage yesterday, the outcome poses a subtle rather than radical threat to the political-faction system at the foundation of old-style Japanese politics.

Some political analysts argue that the tougher competition needed to win parliamentary seats might, perversely, strengthen political factions' power.

Fresh storm over Hualon project

By Guy de Jonquieres in London

The government's £51m (\$80.4m) grant to Hualon, a Taiwanese group, to build a Belfast textile plant was plunged into renewed controversy yesterday when a director of Northern Ireland's Industrial Development Board resigned in protest at the project.

Mrs Jennifer d'Abo said she had quit because the board, which is responsible for the £25m project, had failed to give her satisfactory information about the legal and financial arrangements for the deal.

She said the board had refused to answer questions about a recent stock market scandal involving subsidiaries and senior executives of Hualon, and had refused her request for a special board meeting to reconsider the deal.

"I am not happy to agree to going forward with a very large project when there have been accusations of scandal, share transactions (and) land transactions - to which I have not been given satisfactory answers," she said.

She said there should be a proper inquiry into the project, the largest manufacturing investment in Northern Ireland since the state-backed De Lorean car venture, which collapsed with heavy losses in the late 1970s.

The Commons Northern Ireland committee is already investigating the proposed plant. British textiles manufacturers are considering challenging in the European Court the European Commission's approval this year of the £51m grant.

Mrs d'Abo is chairman of the Moyes Stevens florists group and headed Ryman, the stationery chain in the 1980s. She said she and other IDB directors had repeatedly raised questions about the Hualon project since it was first submitted to them more than two years ago.

She said she had received contradictory and unclear answers from IDB executives about which part of the Hualon group the board was negotiating with, and about the status of the financial guarantees which Hualon had agreed to provide on the project.

The IDB said last night that it had declined Mrs d'Abo's request for a special board meeting last month because it wanted first to talk with Hualon executives.

It said it had made "very considerable efforts" to answer her questions. The last board meeting had discussed her objections and reviewed recent developments relating to the project, to which no grant had yet been paid.

The IDB said there was no justification for suspending the project. If no legal challenge were mounted by the end of this month to the Commission's approval of aid, it expected the company to go ahead with the plant on schedule.

Picture, Page 8

THE LEX COLUMN

Discounters at bay

J Sainsbury has seen off the immediate threat from the discount supermarkets. The victory has been achieved at the price of a painful reduction in gross margins, the group conceded yesterday. But fears of a profits implosion, which have lingered on since the traumatic fall in Sainsbury's share price early this year, now look overdone. The discounters themselves are not in a fit state to launch a fresh assault on prices, as Kwik Save's figures are expected to demonstrate today. Against this background, gross margins at Sainsbury should stabilise from here on.

The group's rigour in holding down costs in its core UK food retailing business was impressive. Equally so, from a strategic as well as a financial point of view, was the contribution made by Sainsbury's other retailing activities.

Operating profits here grew by more than a quarter, lifting the total group in group operating profits to 10 per cent - well ahead of the 7.7 per cent increase achieved by Sainsbury's UK supermarkets alone. The group's diversification strategy, which took a further stride forward last month with the acquisition of a 50 per cent voting stake in Giant Food of the US, has proved successful in insulating profits from the full ravages of competition in UK food retailing.

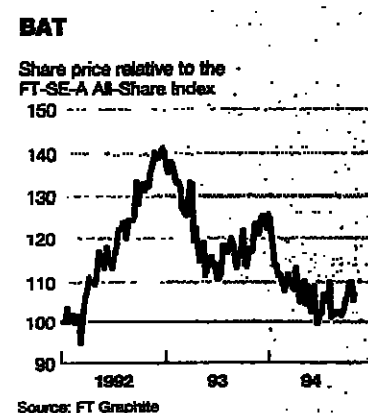
One gripe is that the dividend grew by only 6.7 per cent, in line with pre-tax profits which were held back by a high interest charge. Sainsbury should consider moving to a progressive dividend policy. So robust is its cash flow that it could clearly afford to do so. But Sainsbury is probably husbanding its cash for further diversification in the US.

BAT Industries

BAT is up to its eyeballs in regulatory issues. In UK financial services, it faces a new disclosure regime and the costs of untangling the personal pensions fiasco. In US financial services, the Californian insurance reform movement has come back to haunt it. In tobacco, where the US anti-smoking lobby is getting ever more vociferous, BAT is now fighting to save its \$1bn bid for American Tobacco from an anti-trust challenge. A normal company might start to feel persecuted. But suppliers of cigarettes and life insurance do not expect to be loved.

Not that the regulatory pressure is all bad. While the personal pensions disaster has done little to dent BAT's new life and investment business, it

FT-SE Index: 3081.3 (-15.0)



can only hasten consolidation in the industry and BAT has the money to spend on fire sales. On the cigarette side, the blocking of the attractive American Tobacco deal would be a blow. But at least the threat of an excise duty hike has receded for the moment.

Nevertheless, the thickness of the regulatory jungle is tending to obscure BAT's healthy trading picture. The shares slipped yesterday despite the resilient financial services profits and strong recovery from the US cigarette business. At this rate, BAT will be more than justified in matching the 8 per cent interim dividend increase at the final stage, so pushing the yield to 6.3 per cent. That looks cheap even by the standards of other tobacco stocks. Whether it takes full account of the regulatory and legal risks is another question.

Snapple

Snapple's headlong rush into the arms of Quaker Oats is logical. Sales growth at the new-age fruit juice company remains healthy, but the group is facing stiff competition from the likes of Coca-Cola, Pepsi and Nestlé. Margins are being squeezed and the company has been forced to raise marketing expenditure. Snapple needs to internationalise but, on its own, has neither the necessary financial nor management resources to do so quickly. Quaker should provide the extra resources as well as access to its distribution system.

By acquiring Snapple, Quaker is staking its claim to become a significant competitor in the soft-drink industry. The company already mar-

kets Gatorade, the top-selling US sports drink which it is beginning to push into Europe. But Quaker is paying a steep price for access to the new-age soft drinks sector, the fastest-growing part of the beverage market. The \$14-a-share offer may be well below Snapple's peak of \$31 in February, but it still represents a multiple of 38 times expected 1994 earnings. The deal will be dilutive for at least two years.

Quaker plans to pay for the deal at least in part, by selling its Borden pet food business, the region's second largest. Both Nestlé and Dalgety, the next biggest competitors, would probably want it. But the Swiss group must be favoured. Dalgety is already distracted, trying to buy Allied Dairies food ingredients business. Besides, Nestlé has the deeper pockets.

Yen

The other side to the dollar's weakness is the continuing strength of the yen. Neither country is happy with the situation. While the US Federal Reserve waded into currency markets yesterday for the first time in many months, the Bank of Japan's intervention in currency markets has become increasingly frenetic. But buying dollars and selling yen alone will achieve little.

Changes in monetary policy are needed in both countries. The Fed's approach to raising interest rates has been dilatory. Meanwhile, the Bank of Japan's governor, Mr Yasushi Mieno, who retires next month, has been giving the economy a valedictory twist of the monetary screw. Short-term market rates have been nudged upwards in the last few months and long-term rates have joined the global surge.

The monetary stance is inappropriate. Japan's economy remains mired in the foothills of a painfully slow recovery. Despite the still low nominal interest rates, prices are falling fast - consumer prices dropped by 1.6 per cent in the three months to August. Real interest rates have risen by more than 1.5 percentage points in the last year. The risk of a deflationary spiral remains real, magnified by the threat from a still-precious financial system. The trade surplus may at last have started to decline, but that alone will not prevent the yen rising yet higher. On current policy, Japanese investors see little reason to reverse the repatriation of their investments that has been at the heart of the currency's strength for so long.

Belgium ready to ease rules on pension fund investment

By Emma Tucker and Norma Cohen

The Belgian government is preparing to relax investment rules for pension schemes, dropping the requirement that at least 15 per cent of assets must be invested in government bonds.

The proposals are part of a wider set of reforms of Belgian pension law. They will also address issues such as the way liabilities are calculated.

The move comes as other European governments debate how much freedom should be allowed to pension fund managers responsible for investing assets. A proposed EU directive intended to bar member states from unduly restricting investments in equities or in non-domestic securities was withdrawn because no agreement could be reached.

Belgium, which has roughly Bfr250bn (\$8.05bn) in occupa-

tional scheme assets, already has few restrictions on how assets can be invested.

The Belgian association of pension funds expects the 15 per cent rule to be dropped over the next few months, with legislation drawn up before the end of the year. It has campaigned for the move.

A representative said: "On pensions we are closer to the UK position than the French or the Italian."

Mr Paul de Smet, partner at Conac, consulting actuaries, said the new rule would have little immediate effect on bond holdings.

According to the Belgian association, 34.8 per cent of a typical Belgian fund was invested in Belgian government bonds at the end of last year. The next biggest component was foreign equities (21.7 per cent), followed by Belgian equities (16.5 per cent).

Foreign bonds accounted for only 12.6 per cent of investments, while cash accounted for 7.6 per cent of the average portfolio.

The shares, however, change according to company. Funds of the big multinationals based in Belgium - for example IBM and Unilever - diversify more, with a tendency to invest more in foreign equities.

However, while providing some liberalisation on investments, the proposed legislation will make it much harder for employers to borrow the surplus assets of their pension scheme themselves. The rules that set investment restrictions cover only the assets specifically needed to calculate liabilities, Mr de Smet said.

There are no restrictions on how the surplus assets are invested, and some companies have lent the funds back to themselves.

Politicians seek network votes

Continued from Page 1

her campaign staff say. To reach voters who do not have home computers, Ms Brown this week set up multimedia computer kiosks in San Francisco, Sacramento and Los Angeles. Each kiosk contains an Apple Macintosh personal computer with a CD-Rom unit that contains a wide range of information about the candidate including record-

ings of some of her campaign speeches.

Claiming to break new ground in the use of technology in a political campaign, Ms Brown said that the technology "combines two elements that have contributed to California's economy and creativity - Hollywood and the Silicon Valley".

When it comes to election day, the Internet will also be the place for instant news on elec-

tion returns. The full text of the bulky California ballot pamphlet is online via <http://www.election.digital.com> and the campaign cybertrail is spreading in other states.

To find out where California's gubernatorial candidates stand on issues in the election, send E-mail to petewilson@delphi.com or kathbrown@netcom.com and wait to see if the computer promises are kept.

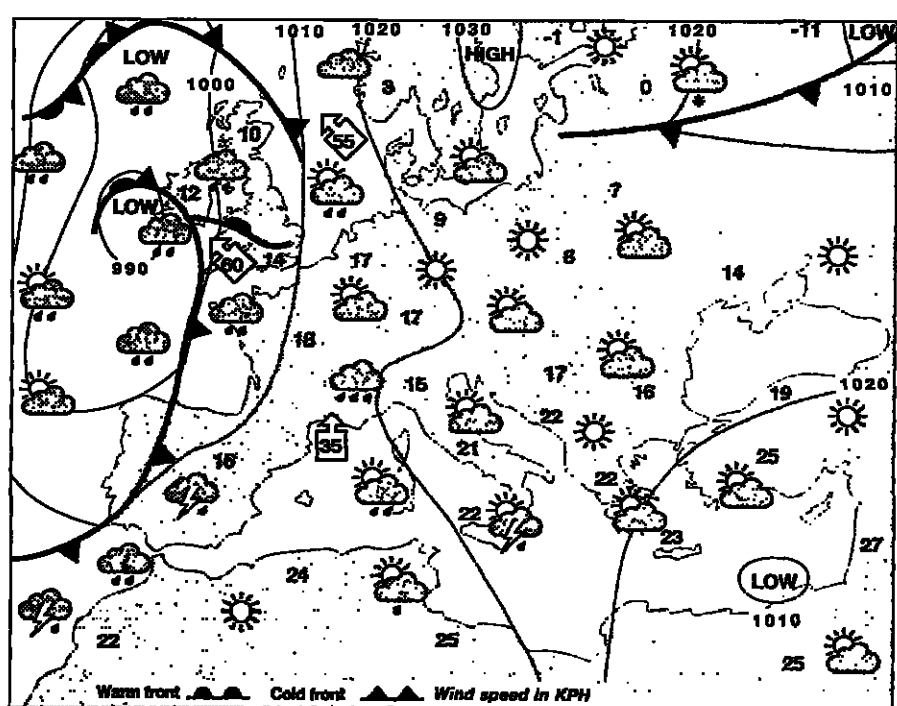
FT WEATHER GUIDE

Europe today

Most of Europe will be sunny and dry as high pressure over the Gulf of Bothnia extends to central and southern Europe. A low west of Ireland will draw warm air northwards, bringing rain to England and Spain. Temperatures will rise by 5C-7C over much of France. Moist air from the western Mediterranean will cause heavy rain with a risk of flooding in south-east France and the southern slopes of the Alps. Scandinavia and much of eastern Europe will have a lot of sun but will be rather cool. Wintery conditions will expand over north-east and central Russia where below-freezing daytime temperatures will reach as far south as Moscow.

Five-day forecast

Western Europe will have seasonable temperatures but unsettled conditions will expand from west to east. Southern France and Italy will have a lot of rain. North-east Europe will become cooler and there will be heavy showers near the Black Sea over the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Madrid	sun	12	Caracas	thund	32	Faro	thund	20	Madrid	rain	15	Rangoon	sun	34
Calcutta	sun	12	Cardiff	show	14	Frankfurt	sun	16	Malaga	sun	21	Reykjavik	sun	4
Abu Dhabi	sun	32	Casablanca	sun	23	Geneva	sun	18	Malta	sun	23	Rio	show	22
Accra	sun	30	Chicago	cloudy	18	Glasgow	show	18	Manchester	cloudy	21	Rome	cloudy	21
Algiers	sun	34	Colombo	sun	28	Hamburg	sun	19	Milan	show	28	S. Francisco	sun	16
Amsterdam	sun	15	Dakar	sun	29	Helsinki	sun	12	Melbourne	show	17	Seoul	sun	14
Athens	sun	22	Dallas	sun	26	Hong Kong	sun	27	Medina City	sun	22	Singapore	show	32
Bahia	sun	25	Dhaka	sun	30	Osaka	sun	21	Miami	sun	28	Stockholm	sun	14
B. Aires	sun	28	Dubai	sun	31	Paris	sun	16	Montreal	sun	14	Strasbourg	sun	17
B. Jam	cloudy	13	Dublin	sun	13	Perth	sun	25	Moscow	sun	14	Sydney	show	20
Bangkok	sun	33	Durban	sun	22	Prague	sun	17	Munich	sun	18	Taipei	sun	29
Barcelona	cloudy	19	Edinburgh	show	11	Warsaw	sun	18	Nairobi	sun	28	Tokyo	cloudy	18
						Wellington	sun	16	Naples	sun	22	Toronto	sun	16
						Yokohama	sun	18	Nassau	show	30	Vancouver	show	8
									New York	sun	18	Venice	sun	15
									Nice	sun	18	Vienna	sun	13
									Oslo	sun	18	Warsaw	sun	8
									Paris	sun	18	Washington	sun	21
									Perth	sun	25	Wellington	cloudy	14
									Prague	sun	11	Winnipeg	snow	-1
												Zurich	sun	16

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مكتبة الأصيل

UK CONSUMER CREDIT AND ASSET FINANCE

Thursday November 3 1994

While future prospects for the industry look good, the pace of recovery in consumer credit and asset finance is still relatively slow. Jim Kelly reports

Reluctant spenders put brake on growth

Latest figures from the UK credit and asset finance sectors, traditional barometers of the economic climate, suggest consumers and business people are still reluctant to accept that the recession is really over.

In August this year members of the Finance and Leasing Association (FLA) were owed £38.2bn for asset finance while in the year to June they had provided £15bn of consumer credit. Though the figures are large, the overall picture is described, nevertheless, as subdued by spokesmen for the sector when compared with the rapid expansion in the late 1980s. David Hardisty, chairman of the FLA, admits to a steady rise in consumer credit but points out, "we are definitely not seeing another credit boom".

Many consumers are repaying existing debts, as well as committing themselves to new credit. On average customers repay the amount owing on a store card within six weeks.

Moreover, the latest FLA figures for August show the overall growth in consumer credit slowing up. Borrowing on store cards fell by 9 per cent in July to £375m. Personal loans, at £258m, were down by 1 per cent month-on-month, though up by 30 per cent on the same month last year.

"Consumers haven't forgotten the last set of interest rate rises. The government underestimated this fear factor and put up rates when confidence was still too shaky," says Mr Hardisty. Nor has the situation been helped by the government's tax increases which have further militated against a consumer-led recovery.

In asset finance, the situa-

tion is broadly similar. The FLA points out that while there was a slight recovery in 1993 the figures for total advances were almost 20 per cent below the peak year of 1990. "At this stage in the economic cycle, the business finance figures are frankly disappointing. We would expect to see much more investment through hire purchase and leasing," says Mr Hardisty.

The sector is looking to the forthcoming Budget for help in revitalising the sector and, coincidentally, to assist the government to achieve its own aim of promoting an investment-led recovery. The FLA has suggested in its 1994 tax submission that the 40 per cent writing-down allowances on plant and machinery in operation over the 12 months to October 31, 1993, be reintroduced as from budget day. The association, and its members, say this could provide a vital fillip to the industry during an uncertain period.

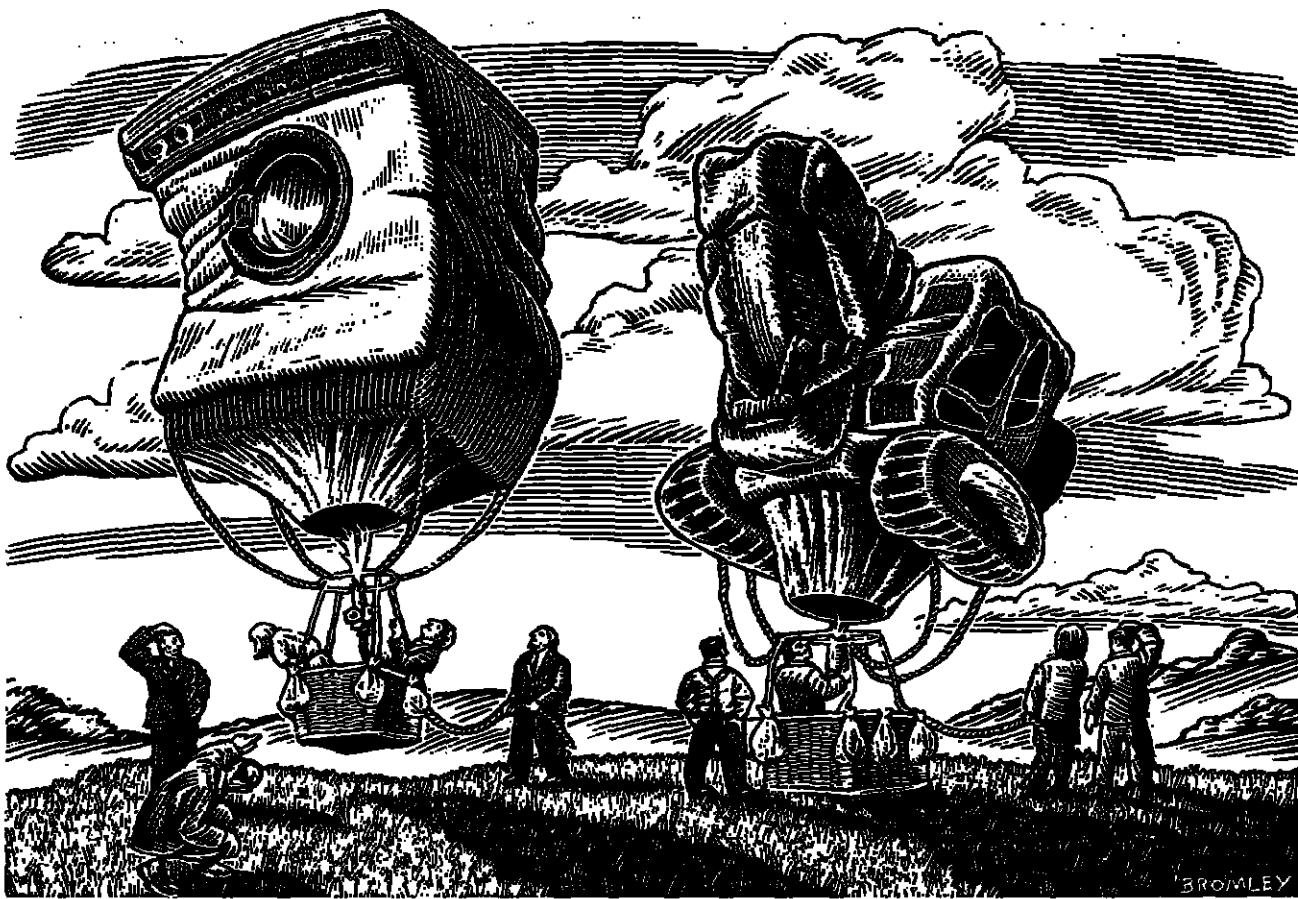
But while overall recovery

asset finance has reached a "stage of maturity" and must develop new areas of operation to enable it to grow.

It will, he argues, be difficult for the industry to improve upon its current performance of financing 30 per cent of all capital equipment purchases. Growth will come in areas such as operating leases, where the lessor takes a real risk in the equipment provided, in motor car finance through contract hire, and through financing privatised industries, such as the railways.

Another growth area is expected to be so-called "captives" - finance houses owned by manufacturers. While some observers point to the negative impact they can have on the parent balance sheet, because of their higher gearing, their numbers are growing.

Forward Asset Finance, of the Forward Trust Group, a subsidiary of Midland Bank, which has provided services to more than 25,000 companies in



such services to be crucial to retaining existing business and to finding new customers.

In the high street and in the motor trade speed and convenience, as well as new approaches are also expected to play an important part in overall growth. Customers can, for example, be offered low and zero interest finance, where a finance house provides a loan, and the manufacturer pays the interest subsidy.

One comparatively recent entrant, Marks & Spencer Financial Services, is now among the leading participants under the FLA umbrella. The financial services it now provides have grown from the original charge card base to personal loans, unit trusts, pensions and life assurance.

In the motor sector, finance made available through UK dealers rose by 13 per cent year on year to £725m in August. For used cars it was up 33 per cent.

Worldwide, Ford Financial Services, the captive arm of Ford, recorded leasing advances of £14.5bn - making it the world's top leasing company ahead of GE Capital and GMAC (General Motors), according to a survey by Asset Finance and Leasing Digest.

In 1992 and 1993, point-of-sale credit made the arm the most profitable part of Ford. Total advances to customers worldwide exceed £70bn. In 1993, Ford Credit Europe financed 40 per cent of new Ford vehicles sold in the UK. In the future leasing and contract hire are seen as likely areas of growth. Ford Contract Motoring, for example, administers 32,000 vehicles in the UK.

In one recent development, Midland Bank's 3m credit card customers were offered the opportunity to lease a car for up to two years, and either return it at the end of the period or buy it.

Finance houses have devised

similarly structured deals where customers can pay off the depreciation on cars rather than the capital sum. (See motor finance, page 2)

Paul Gee, managing director of Lombard Business Finance, predicts that a highly competitive market will develop in asset finance where the struggle to find a clear image and promote service excellence are important. Growth is expected from projects falling under the government's Private Finance Initiative, which is intended to take private finance into hospitals, utilities, and railways.

Management buy-outs have also become a new area of interest to the finance houses. Pascon, the former BTR plant hire and scaffolding company, acquired by its management in a £23.5m transaction, is one example. (see page 6).

In another innovative deal Lombard provided a staged payments plan which, it said, combined the benefits of term

funding with the flexibility of clearing bank facilities for J.P. Fruit Distributors. The company needed a 3.5 acre site at Dartford, south London, for 34 temperature controlled pressure ripening rooms.

Barclays Mercantile, another leading participant in the market, is using money from the European Union to promote investment. A European Investment Bank scheme provided a cash rebate of £2,300 per new job created, if the project cost more than £20,000 and the jobs last five years.

According to Garry Clarke, pricing manager, Barclays used its expertise to get clients through the machinery of the scheme and speedy access to the £12m aid available. Barclays claims a 90 per cent success rate for clients chasing loans of between £250 to £30,000 under an earlier EIB loan subsidy scheme.

In consumer credit, the entry of new participants, especially

IN THIS SURVEY

■ Consumer credit: the latest rise in interest rates has highlighted the fragility of the recovery

■ Motor finance: a quiet revolution in marketing strategy is taking place

Page 2

■ Small business finance: asset financing is increasingly becoming more flexible than overdrafts

■ Big-ticket leasing: the recession is taking its toll

Page 3

■ Car fraud: let the buyer of second-hand vehicles beware if the seller is a private individual

■ Leasing: standard reforms on accounting practices is on the way

Page 5

■ The industry: there is a wide range of companies undertaking consumer credit and asset finance

Page 6

Editorial production: Roy Terry

While overall recovery may be slow, the industry is developing increasingly sophisticated forms of finance

may be slow, the industry is developing increasingly sophisticated forms of finance to support its customers during the recovery.

In asset finance, a small business can lease a production line which can be paid for by instalments out of profits. Such devices are designed to distinguish asset finance from the services offered by banks.

Derek Soper, chairman of AT&T Capital, believes that

the past three years, also sees innovation ahead. Hire purchase, it says, is growing in popularity, helped by low and fairly stable interest rates.

Improved quality of service is seen as an important development. Forward has developed "industry specific" packages backed by trained staff in sectors such as printing, construction, engineering, and commercial vehicles, and believes the development of



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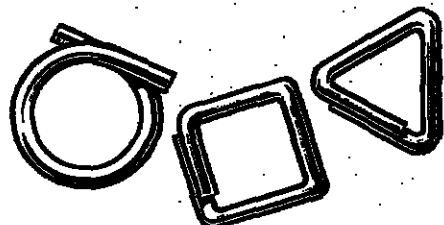
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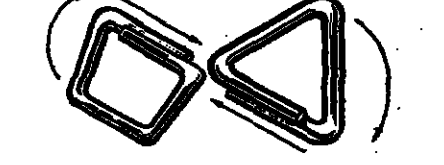
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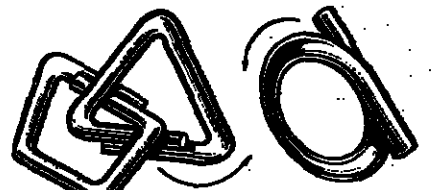
The theory's simple the practice rarely is.



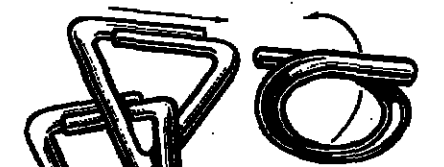
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CONSUMER CREDIT AND ASSET FINANCE 2

Consumer credit: Christopher Price looks at evidence from the high street

The trend is still decidedly upwards

The rise in consumer credit in the past year, which has reflected the growing confidence in the high street, has not been a smooth one, and the latest rise in interest rates has further highlighted the fragility of the recovery.

However, the trend is still decidedly upwards. Figures for 1993 showed how much the consumer credit market had recovered from the recession, and 1994 has so far built on this.

According to the Finance and Leasing Association (FLA), new lending by its members was up 25 per cent last year at £12.1bn (1992: £10.5bn). The biggest rise was seen in the store instalment sector, where new credit rose 46 per cent to nearly £1bn (£664m). Store-cards themselves showed only a 12 per cent rise to £3.4bn (£3.0bn), reflecting the trend among retailers to offer promotional credit to bolster sales.

There was a steep climb in the number of unsecured personal loans which jumped 36 per cent last year.

Motor finance also staged a good recovery. The FLA figures show a 34 per cent rise in motor finance credit in 1993,

\$5.5bn being taken out by customers against £4.1bn in the previous year.

The trends so far in 1994 give a mixed picture of the demand for credit, although an overall positive one. The April tax increases and the rise in interest rates in September have both had effects, the first feed-

ing through slowly to dampen consumer spending and the second raising the cost of credit with a negative effect on demand.

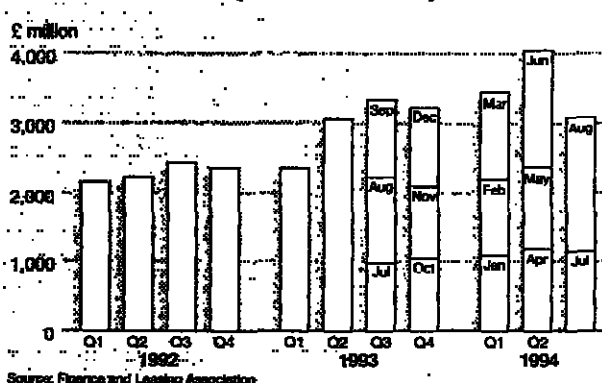
Inflationary evidence since then, in the rest of the developed world's economies as well as in the UK, has raised expectations of further rises in interest rates.

It was just such a fear which was attributed to the slow-down in consumer credit in August. According to the FLA, consumer credit was up 12 per cent at £3.1bn (£2.8bn) year-on-year, and up 44 per cent on the July's total. However, this latter jump was due to August car sales which received their annual boost from the impact of new registrations.

The overall consumer credit rise on an annual basis was lower than in previous months. David Hardisty, chairman of the FLA, said: "The government underestimated the fear factor and put up rates when confidence was still too shaky."

Personal loans slipped 1 per cent to £256m from the previous month, although they remained 30 per cent ahead of the year before. Store cards were also down from July, falling 9 per cent to £375m, but showing a 58 per cent rise year-on-year.

Consumer credit (total advances)



Infoclink, the credit information group, has produced similar findings. Tracking credit inquiries by its customers, its research showed demand for finance houses - which provide finance for cars, store cards and "in-house" store credit - 18 per cent ahead in July year-on-year, retail 6.7 per cent up and new car loans 3.6

per cent ahead. These were nearly all less than the previous month's rises. Brian Bailey, chairman of Infoclink, said: "It is possible that this reflects a stabilisation in the pace of recovery, rather than a genuine lack of spending confidence."

Official statistics are somewhat at odds with industry

data - although the upward trend is similar. The Central Statistical Office (CSO) reported lending to consumers at record levels in August after a slight dip in July. On a three-monthly basis, total consumer lending was put at £1.58bn to the end of August, up from £1.5bn in the previous quarter. Higher net lending by finance houses jumped from £324m in July to £486m in August, according to the CSO.

Underpinning the recovery in consumer spending are changes to the types of credit being used. Retailers, for example, have been handing over their card and credit systems to finance houses.

Retailers are focusing their attention on retaining customer loyalty and concentrating on what they do best," said John Morgan, managing director of Personal Finance at Lombard North Central, the financial services group. Retailers have also been

moving away from option and budget cards in recent years, opting instead for promotional credit. This might typically offer consumers not only more frequent sales bargains, but also cheaper credit with which to buy them. Mr Morgan estimates that as much as 50 per cent of high street stores' sales

are bought on promotional credit.

Many of the high street retailers have turned to their credit businesses. In 1993 Storehouse, the BHS, Habitat, Mothercare and Richards retail group, sold its card business with 400,000 customers, accounting for about 8 per cent of the group's turnover, to

Yorkshire Bank.

Four years ago, GE Capital, the financial services business of General Electric of the US, paid £185m for the financial services business of Burton, the high street clothes group. The deal brought GE a card holder base of 3m and the management of several other retailer card operations.

GE also took over the credit card operations of The House of Fraser, which has 1.1m customers. House of Fraser pays GE Capital a fee and the deal is initially for 15 years. GE also acquired the motor loans business of Mercantile Credit, a subsidiary of Barclays.

Lombard paid £100m for Thorn EMI Financial Services and Trinity House Finance. Store cards and consumer credit business for Thorn EMI's retail outlets, including Rumbelows, are owned by Lombard, which also looks after new business for Granada and Visionaire.

"Consumer confidence is returning, although it does seem to be slowing down, and this is showing through to the credit market," says Mr Morgan. "But people are shopping around and retailers and credit providers are having to respond."

Motor finance: Christopher Price looks at personal contract purchase schemes

Quiet revolution in marketing strategy

A quiet revolution is under way in motor financing. In August, around half the new M cars registered will have been sold through a personal contract purchase (PCP) scheme - just over two years since the first national plan was introduced by Ford, the car manufacturer.

Since then, Ford's Options has been joined by schemes from nearly all car manufacturers, including Vauxhall Choices 1-2-3, Rover Select and Peugeot Passport.

The schemes are a return to the old-style leasing schemes, but with a significant difference: drivers have the option to purchase the vehicle.

Private buyers pay a deposit on a new vehicle, typically anything over a fifth of the value. The dealer will then calculate the future value of the car at the end of the payment period, which can be anything from two to five years. The

buyer pays the difference, plus interest, as a monthly payment.

At the end of the period the buyer has two options: to buy the vehicle outright, for which the outstanding future value sum must be paid; or to part-exchange the vehicle for another new car. Thus instead of paying the remaining lump sum to own an older car, the buyer trades it in to pay a similar amount for a new one.

For the customer this has obvious advantages. It makes a new car more affordable. Monthly payments are lower than with a straight loan or hire purchase where the entire cost of the car is repaid over the term of the agreement. For example, with a PCP, a Rover Metro can be leased for as little as £25 a week, after the initial deposit. It also means that the customer will have a new car every few years. Another bonus is that often

the warranty on the car will mean that many potential repair costs are covered.

As well as giving the new car market a shot in the arm, PCPs carry other benefits to the dealers and manufacturers. They promote brand loyalty.

The finance houses and the car dealers have finally got their act together by employing highly-trained financial sales staff

ally, encouraging customers to exchange their used cars for new. The manufacturer benefits from the regular servicing and repair of the vehicle plus, at the end of the term, the probability of the customer trading in the old vehicle for a new one of the same make. If the customer does decide to hand back the car, the garage is left with a low-mile-

age - most of PCP schemes limit annual mileage - car, with one owner and which has been serviced regularly, which can then be sold on.

But PCPs have not suited all buyers. They are unusually available only on new cars, or sometimes those up to two or three years old. For many buyers, particularly those who do not have an old car to trade in or a lump sum, it is not convenient to find a deposit. It may also not be agreeable to pay a lump sum at the end of the payment period.

Another potential drawback is that agreed future values are covered by a variety of clauses, particularly those insisting on the good condition of the car, and mileage limits - usually 6,000 to 12,000 a year. As well as never owning the vehicle outright, drivers are also tied to the same manufacturer every time they change models.

However, the overall success and popularity of PCPs is undeniable, to the extent that banks and building societies are changing their product ranges to meet the challenge. Yorkshire Bank, which offers car loans with a typical annual percentage rate (APR) of about 16 per cent, has introduced an HP-style New Car Finance Plan with typical APR of between 10.7 and 11.6 per cent for loans of £3,000 and above.

Midland Bank recently offered its 3m credit card customers Carchoice, in which they could lease a new car from Swan National - the hire company bought by the bank last year - for two years and either return it at the end or buy it outright for an extra fee.

There have been other developments in the motor finance sector underpinning the PCP revolution. "The finance houses and the car dealers have finally got their act together," says Graham Woodhouse, chief executive of Rover Finance. "We are at the point of sale so that customers get not only first-class sales service but also the best financial assistance as well."



Buyers of new cars are increasingly choosing personal contract purchase schemes

The result, says Mr Woodhouse, is an improved service and an increase in sales. "We have increased the number of sales inquiries into actual sales." This has been achieved through a high investment in new technology at garages. Customers can be informed of terms and conditions for potential purchases on a variety of options within minutes of an inquiry. Neil Tomkins, managing director of Lombard

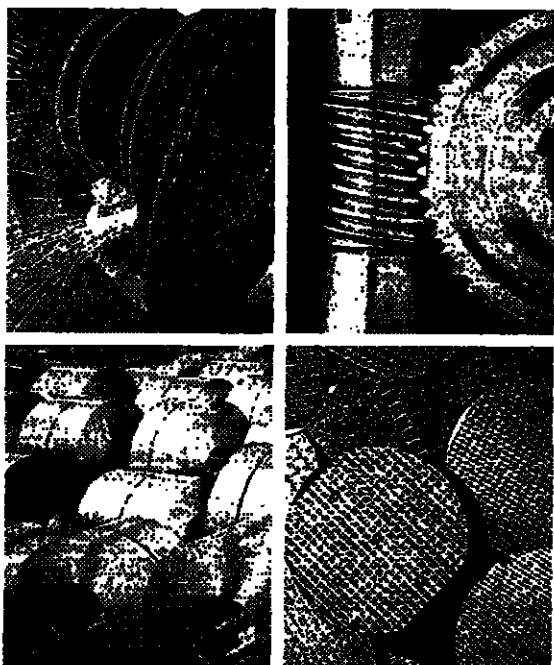
Motor Finance, said: "Those customers who would have gone to the bank for a loan are now being converted at the point of sale through better training and new technology." The upgrading of the point of sale has occurred while dealers' margins have declined. With many manufacturers offering cash-back deals on various models, dealers' margins have been cut from around 18 per cent to 10 per

cent. According to the Finance and Leasing Association, new car motor finance was up 29 per cent year-on-year for August. "It's a healthy leap, but the biggest part seems to have happened at the start of the year, and the indications are that sales growth is slowing," said Mr Woodhouse. But he added: "We do seem to have recovered the feel-good factor in the industry."

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Leasing and hire purchase have rarely had a better press. Largely swept away is the old image of HP companies lending more expensively than the banks.

In its place, asset financing is increasingly being seen as a flexible form of finance that can be cheaper for small businesses than bank overdraft.

Asset-based finance remains one of the few sources of medium-term finance for smaller companies and one of the only places that start-up companies can turn to for funds.

While the image of leasing suffered as the result of a small number of photocopy supplier agreements, it is arguable that the industry's reputation has emerged from the recession in more robust shape than that of the banks.

"There have been stories recently of the banks relaxing their lending criteria," says Lesley Kay of the Finance and Leasing Association, which represents many of the UK's leasing companies. "But small businesses which have had bad experiences with banks feel more comfortable if they can get finance from a finance house."

Small companies have also had heavyweights encourage them to seek alternatives to the overdraft which is still used more frequently to raise finance in the UK than anywhere else in Europe.

Responding to the debate about small company access to capital, the chancellor of the exchequer, Kenneth Clarke, and the governor of the Bank of England, Eddie George, this year encouraged companies to seek alternatives to overdrafts. To finance short-term assets - such as working capital - companies might consider factoring, both recommended. For fixed assets, they suggested companies should look at leasing.

The attraction for small companies is threefold. First, there is certainty. Assets cannot easily be repossessed by the finance house as long as payments are maintained. An overdraft, on the other hand can be withdrawn.

Small businesses are also more likely to raise fixed-rate finance rather than the variable rate of most overdrafts. Finally, hire purchase and leasing offer a variety of opportunities to use capital allowances in a tax efficient manner.

The steady growth of financing is evident in the figures. According to the FLA, its

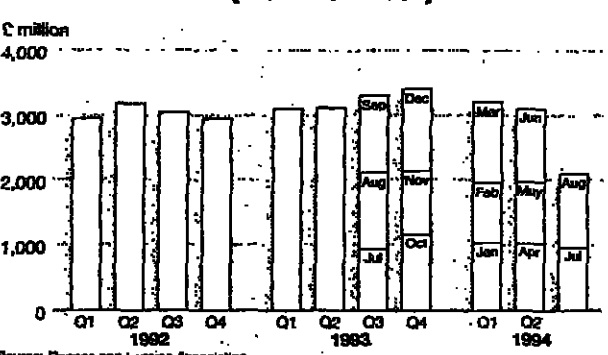


Heavyweight encouragement: Eddie George and Kenneth Clarke have advised small companies to seek alternatives to overdrafts

Small business finance: Richard Gourlay looks at asset-based lending

More flexible than overdrafts

Business finance (total advances)



Source: Finance and Leasing Association

members lent £13.5bn in the 12 months to August 1994, an increase of 11 per cent over the same period last year. Of that, leasing was up only 3 per cent to £7.3bn but it is rapidly being caught by hire purchase, up 32 per cent at £6.1bn.

The FLA estimates about a quarter of this by value and much more by volume is finance for small business and that about 50 per cent of small companies fund their equipment purchases through hire purchase or leasing.

The rapid rise in hire purchase can be explained by the fact that many companies have discovered hire purchase is barely more expensive than finance leasing where the asset reverts to the lessor company at the end of the lease.

Leasing is particularly

attractive to new companies that have no track record and would have difficulty raising overdrafts. Because finance houses are as interested in residual values of underlying assets as they are in the state of the business they are backing, they have a wholly different approach to banks.

The finance houses have also tended to specialise in certain asset classes: close asset finance, for example, has developed an understanding of the value of printing equipment which has made it the first port of call for companies seeking to set up printing presses.

One beneficiary of leasing's flexibility is Sheffield Omnibus, a start-up company that wanted to buy 12-year-old second-hand vehicles in 1990. The banks would not look at assets

of that age. But a finance house which was familiar with the residual value of commercial buses, was able to finance the deal. Now that the company buys new assets for its expanded fleet it still chooses to use a finance house rather than the banks.

Finance and hire purchase is attractive for companies with assets with long lives such as buses. But companies trying to buy computers have less chance of raising finance. These assets have notoriously short lives, not because they quickly wear out but because they are rapidly considered obsolete. Quite simply, a two-year-old computer's market value falls extremely quickly.

The residual value of such investments is probably something only the manufacturer will be fully equipped to assess. Such deals will remain the preserve of financing companies that support equipment suppliers.

For the very smallest unincorporated companies, leasing may also be about to become a more accessible option. Until now, the UK's small army of unincorporated companies have been covered by the Consumer Credit Act (CCA) when they borrow up to £15,000.

Rather than working in their favour, the FLA estimated this has denied them access to more than £100m of finance which finance houses would

have been willing to lend.

The problem is that the Consumer Credit Act weakens a finance company's ability to repossess assets. If, for example, an unincorporated company had already repaid a third of the agreed amount when it defaults on its payments, a finance house would need a court order to repossess the assets. As a result a number of finance houses simply chose not to risk the costs of dealing with these companies.

But in June the Office of Fair Trading recommended that business lending should no longer be covered by the Con-

sumer Credit Act. The department of trade and industry is studying the recommendation and is expected to announce its intentions shortly.

If business lending is excluded from the CCA, this would not only boost the number of prospects for the finance and leasing industry. It could also provide a much larger population of companies using a more stable way of financing the main assets in their businesses, reducing their vulnerability to banks the next time the business cycle turns down.

Leasing is particularly attractive to new companies

Big-ticket leasing: Jim Kelly reports

Recession takes its toll

The British "big ticket" market in financial leasing has been hit hard by the recession and appears reluctant to recover.

The government's privatisation initiatives have provided vital new business for the big participants but even here evidence of new growth is patchy.

With "big ticket" loosely defined as in excess of £5m it is clear that few businesses felt able to take on such liabilities during the recession.

In fact, "big ticket" is often defined as in excess of £100m - and rising. Leased assets can now range from an entire production line to a new power station.

The significant drop in UK investment, particularly in providing for expanding production with new plant, has been coupled with a restriction in the tax capacity of the banks. As the banks were the parents of many of the biggest names in the industry this acted to restrict supply to the market.

The value of the market in the second quarter of 1994 was £245m, compared to £512m in the preceding quarter and £542m in the same quarter in 1993. The last quarter of 1993 reached £805m.

In the "big ticket" market, particularly, the Finance and Leasing Association's (FLA) call for this year's budget to reintroduce greater tax allowances, ideal for new investment in plant, will be welcomed.

But in the short term the sector is flat, but not stagnant. "At this stage in the recovery we would expect more big-ticket leasing. There is activity in some areas - aircraft, power and transport - but there is not the investment in green field sites that we had hoped to see," says David Hardisty of the FLA.

Like many in the industry Mr Hardisty looks to privatisation for growth and the government's much vaunted but slowly emerging Public Finance Initiative (PFI).

In fact, the PFI is a repeat of history for the finance and

leasing industry. Lombard Group, one of the leading participants, can trace its roots back to the North Central Wagon Co founded in 1881 to purchase and hire railway wagons for the coal-mining industry.

Mr David Hardisty explains: "Leasing is particularly suitable for privatised companies which may not be in a position to benefit from tax allowances themselves."

"Through a leasing arrangement capital allowances are accrued by the lessor as and when the expenditure on the project is incurred. The benefits of these are then passed back to the lessee through lease rentals. Leasing is one of the most efficient ways of using capital allowances. Tax losses can be turned into immediate benefits."

Throughout the industry the leading players reflect a picture of disappointing activity and a search for new forms of financial leasing.

John Brown, founder of NWS Bank, and an executive director, characterises the market as one flushed with capacity but short on projects with a resulting tightening of margins for the lessors.

However, he is more than optimistic that the sector will return to growth. He sees Japanese investment in the car industry in the UK, the privatisation of British Rail, and new stock for the London Underground as areas of potential new business.

NetWest Markets is proud of its involvement in a £290m leasing facility for Humber Power for gas and electrical plant and machinery. Despite tough trading conditions it sees new opportunities in evidence: "Inward investment is particularly encouraging especially from the Far East and is highlighted by the recent announcement from NEC Corporation and Samsung in respect of major investments in Scotland and the north-east respectively."

"The utility sectors remain an important area for the leasing industry as illustrated by NatWest Markets' recent involvement with Humber Power."

Peter Graham, joint managing director of Airstream Finances, leases 200 commercial aircraft on six continents. Despite a difficult trading period he notes that the market is hardening with a 15 per cent rise in rental rates in the past 12 months.

Hill Samuel Asset Finance, one of the leading participants, has a strategy of "added-value" big-ticket transactions and has seen a "marked increase in business". It points to successes in aircraft, ships, shopping centres, and accommodation for university students as well as financing for more traditional assets.

"The market place in general is seeing a slow recovery and is in need of an investment stimulus," according to Anthony Jukes, managing director. He notes that it could be "several years" before investment decisions move into "spend mode".

Mr Jukes also notes that the OECD economies in general have now achieved low inflation with growth in GDP but that there remains concern that fixed asset investment is still showing little or no growth. "This trait is particularly borne out in the UK where despite the low inflation conditions the number of instances of major new investment have been few and far between."

Mrs Anna Merrick, head of leasing at Abbey National Treasury Services, says that in the present interest rate regime margins favour lessees. Recent successes for Abbey National include part of a new rolling stock order of £150m for Network South-East.

For John Carr, business director of Royal Bank Leasing, there "is a huge potential in the public sector if only the key can be found". He lists successful deals in recent months in leasing two Boeing 737s, and significant contracts with a water company.

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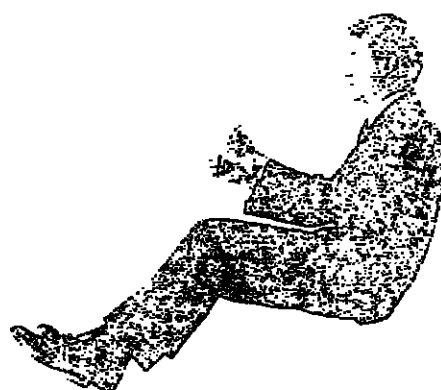
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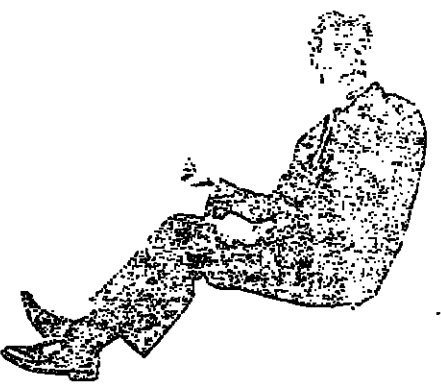
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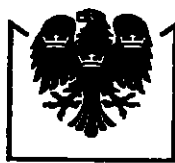
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مكزامن الأصيل

Car fraud: Motoko Rich looks at steps being taken to reform the industry

How to beat the swindlers

Purchasing a second-hand car can be a risky business. According to HPI, the vehicle credit information organisation, as many as one in three cars sold privately may have been written off by an insurance company, reported stolen or may be subject to a finance agreement. A potential buyer is unlikely to be aware of any of this.

The fraudulent sale of vehicles still subject to finance agreements is increasing. According to a survey conducted by the Finance and Leasing Association, its members reported 9,500 cases of such fraud, which cost them more than £45m between February 1993 and February 1994.

The incidence of such fraud has increased over the past few years as more buyers use a form of financing to purchase cars. According to HPI, more than 55 per cent of all new cars are now bought with the aid of a finance agreement. Six years ago, that figure was closer to 25 per cent.

Finance and leasing car fraud can be conducted in several ways. Perhaps the most common swindle is when a car owner sells a vehicle subject to a finance agreement without informing the buyer.

If the first buyer of the vehicle used a contract hire, contract purchase, lease purchase, or any other form of lease finance – all of which have become increasingly popular forms of finance – the new buyer does not inherit good title and is legally liable for the debt, while the finance company would be entitled to take remove the vehicle.

If, however, the car was originally bought with a hire purchase agreement and the second-hand buyer does not know about the financing, the new buyer is guaranteed some protection under the Hire Purchase Act of 1964.

The act says that innocent buyers of cars subject to hire purchase agreements receive good title to the car and are not responsible for the remaining debt on the vehicle. But while the consumer is protected, the finance company loses out because it is unable to repossess the car or demand repayment from the new owner.

Frank Laybourn, chairman of the working party on protection of title initiative at the FLA, says the 1964 Hire Purchase Act is tantamount to a "villain's charter" because of this loophole in the law.

He says fraudsters can orchestrate a transaction that is completely protected by the law. "You now have the situation where person A, for example, buys a Ford Mondeo on a hire-purchase agreement. Person B buys another car. Then they meet in a pub and they exchange the cars without telling each other about the hire-purchase agreements, and they both get good title," he says. "Neither of the finance companies can collect the money or their property because both buyers have good title."

To combat these various forms of fraud,



Bridge over troubled water: fraudulent sale of cars is on the increase

the FLA, supported by the Consumers Association, the Society of Motor Manufacturers and Traders, the Retail Motor Industry and the Driver Vehicle Licensing Association, has proposed a statutory car ownership register.

All manufacturers and importers would have to register with a centralised service which would keep track of all subsequent changes in ownership and finance agree-

ments. It would also store information about insurance write-offs and keep records of mileage and cars reported stolen.

Each car would be registered by its vehicle identification number (Vin), a 17-digit number allocated at the point of manufacture. Unlike a registration number, which can change if licence plates are changed, the Vin is set by a worldwide standard and would remain constant throughout a car's life, making it difficult for fraudsters to disguise a car's identity.

Anyone buying a used car privately would be legally required to consult the register to check the vehicle's ownership. Since a finance company owns a car until the debt is paid off, such a register would immediately reveal any finance agreements.

The loophole in the 1964 Hire Purchase Act which protects "innocent" buyers of cars subject to hire purchase agreements would be eradicated. "It would be the buyer's responsibility to take sensible precautions before parting with their money," says Mr Laybourn. "So, for example, the two guys in the pub would not have good title because they would be construed to have knowledge of the hire purchase agreements under the law. They would be liable if they did not check the register."

HPI already provides a register service, but because it is not enshrined in legislation, Mr Laybourn says it is not sacrosanct. "If a finance company does not want to register it does not need to," he said.

HPI is helping the FLA with its legal proposal, and hopes to bid for a tender to provide the national service.

In the meantime, it collects data for seven registers that 18,000 subscribers in the motor trade and 1,100 in the finance industry use on a regular basis. The outstanding finance register, for example, contains details of the finance arrangements on 5m vehicles listed, and the vehicle identity register provides confirmation of the make, model, colour, engine size, transmission and fuel type for all vehicles registered with the DVLA since 1986 – now numbering about 194m.

In addition, HPI's services are available to members of the public. For £25, a customer can access any of the HPI databases and make sure the car they intend to purchase is clear of finance agreements. They can also check that it is not stolen or written off by an insurance company and make sure the previous owner has not changed registration plates or misrepresented the car's age.

Consumers who check the HPI register are technically giving up their legal protection. "Once you use our service it could be argued that you are no longer an innocent purchaser," says Nikki Webber, marketing manager at HPI. "But you would be daft to buy a car that had an outstanding finance agreement."

Leasing: Jim Kelly examines progress on new accounting practices

Standard reforms on the way

Most large finance leasing companies in the UK produce excellent accounts and are a model of corporate reporting in the eyes of standard setters and the users of financial statements.

The problem for the industry, which it readily acknowledges, is that its image is still tainted by the memory of failures like Atlantic Computers and Court Line: the first a lessor and the second a lessee.

These collapses, and the increasing tendency for lessors to be dealers in assets, often give a jaundiced picture of a vital industry to those in need of a creative answer to capital problems.

The industry, and the government's own standard setters, are working hard to improve the integrity of leasing finance. It is worth looking at the case of Atlantic Computers to see where many of the problems began.

Atlantic was founded in 1975 to provide leasing, lease financing, broking, and the sale of computers. It was floated in 1983 and was swallowed by British & Commonwealth in 1988 for £408m. Two years later both collapsed.

Atlantic had reported aggregate pre-tax profits of £127.6m between 1983 and 1988. When the department of trade and industry finally got their hands on the books its inspectors were able to report that if prudent accounting methods had been used no significant profits should have been reported.

The problem was Atlantic's core product: Flexlease. This product was not viable in the long term but this was concealed by the way in which the company accounted for profits and failed to make provisions for contingent liabilities.

Flexlease was in fact three products: a six-year lease with two options – the "flex" option allowed renegotiation for a new agreement after three years, while the "walk" option allowed the client to terminate the lease after five years.

The options gave rise to large potential liabilities as

more customers took the "walk" option.

It is this type of "treadmill" situation which is often the root of the problem in lessor accounting: where the growth of the business obscures unprofitability. Once growth diminishes the spiral goes into reverse.

The Finance and Leasing Association (FLA) has responded to the type of problems illustrated by Atlantic, and other failures, by pushing ahead with reform for lessor accounting, particularly in the area of residual values.

The FLA's focus on residual values is understandable in the light of several corporate adventures which have ended in failure. However, many outside the industry would like to see a wider reform, tackling the need for lessors to give realistic information on profits.

The "treadmill" nature of leasing finance makes this an area open to abuse. The FLA does, however, deserve credit for campaigning for reform and realising that the future of the industry relies on a public perception of professional integrity.

Both the FLA, and its predecessor the Equipment Leasing Association (ELA), became aware of the problem during the mid 1980s – particularly in the field of computer leasing. The ELA suggested setting up a joint working party with the Institute of Chartered Accountants in 1986. The institute felt the issue warranted a full accounting standard and passed the problem on to the Accounting Standards Committee (ASC).

In 1993, the FLA approached the Accounting Standards Board, which succeeded the

ASC, on the issue. "They acknowledged that residual value accounting was a problem area along with other aspects of lessor accounting. They suggested that the FLA itself should, in consultation with them, draw up a Statement of Recommended Accounting Practices (Sorp) on lessor accounting issues," according to the FLA.

The ASB has allowed the industry to set up a "Sorp-making" body and it will meet later this month. Despite some friction between the standard makers and the FLA the industry will hope that the Sorp will be an influential accounting standard similar to those introduced in banking and in pension funds.

The FLA, through the Sorp process, would like to see residual values more realistically calculated for lessors. These values should also be revalued at intervals. The timing of the impact of revaluation on the balance sheet is another issue to be considered. Should the company accounts take a single hit or should the impact be spread over the life of the lease? The Sorp is likely to propose a conservative compromise between the two.

The FLA disagrees with the ASB when it comes to reforming the standards governing lessee accounting. David Herd, chairman of the FLA, says: "We take the view that the ASB should be more concerned to ensure that lessors are properly accounting for their profits rather than with what should be on or off balance sheet, which seems to be their current preoccupation."

The ASB's present financial reporting standard is SSAP 21 – the standard set by the old

Accounting Standards Committee, which became effective in 1987.

It drew a distinction between finance leases, which were transactions with contracts in which the lessee paid most of the value of the asset, and operating leases, usually over a shorter period.

In the first the asset is treated as a purchase, appearing on the balance sheet of the lessee, with the profit and loss account incorporating the cost of borrowing and depreciation. The second item is allowed to remain off balance sheet. The profit and loss account simply shows a charge for servicing the lease.

How do you tell the difference between the two? The "90 per cent test" states that a finance lease was any lease in which the present value was at least 90 per cent of the asset's fair value.

The result of this rule was, as is so often the case in accounting, the creation of a small industry dedicated to circumventing it, particularly in big ticket leasing. Leases were engineered to be off balance sheet at 89 per cent.

Lessors also abused the spirit of the regulations. In their accounts the requirements were the inverse of those for the lessee and creative accounting can remove the impact of the lease on the balance sheet.

Third parties were introduced between the lessor and lessee with the result that, in some cases, the impact of the transaction was not shown at all.

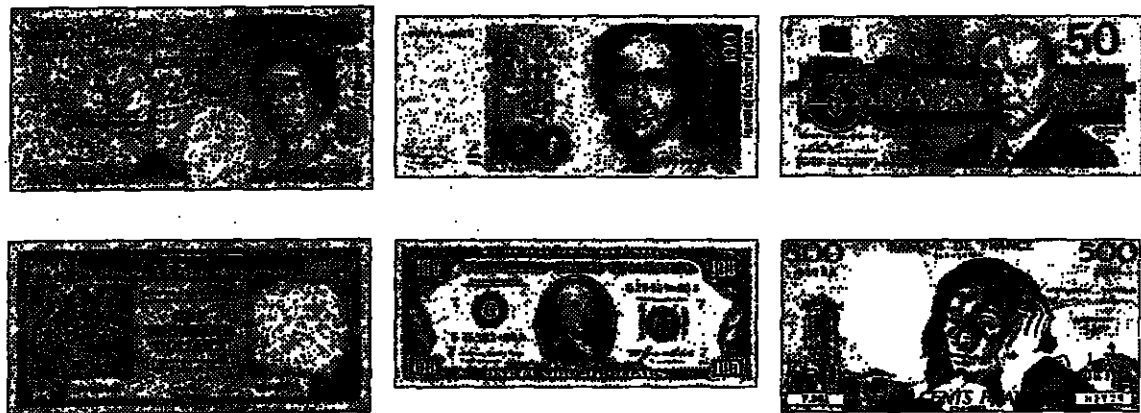
This state of affairs is unlikely to survive in the face of the ASB's Financial Reporting Exposure Draft 4, and the ASB's statement of principles. The first seeks a picture of the true nature of transactions in accounts and the second defines the true nature of assets and liabilities.

All eyes will be on the ASB in the medium term for reform in this area – and in the shorter term on the Australian Accounting Research Foundation – which is currently considering the very same issue.



David Herd: pushing ahead with accounting reforms for lessors

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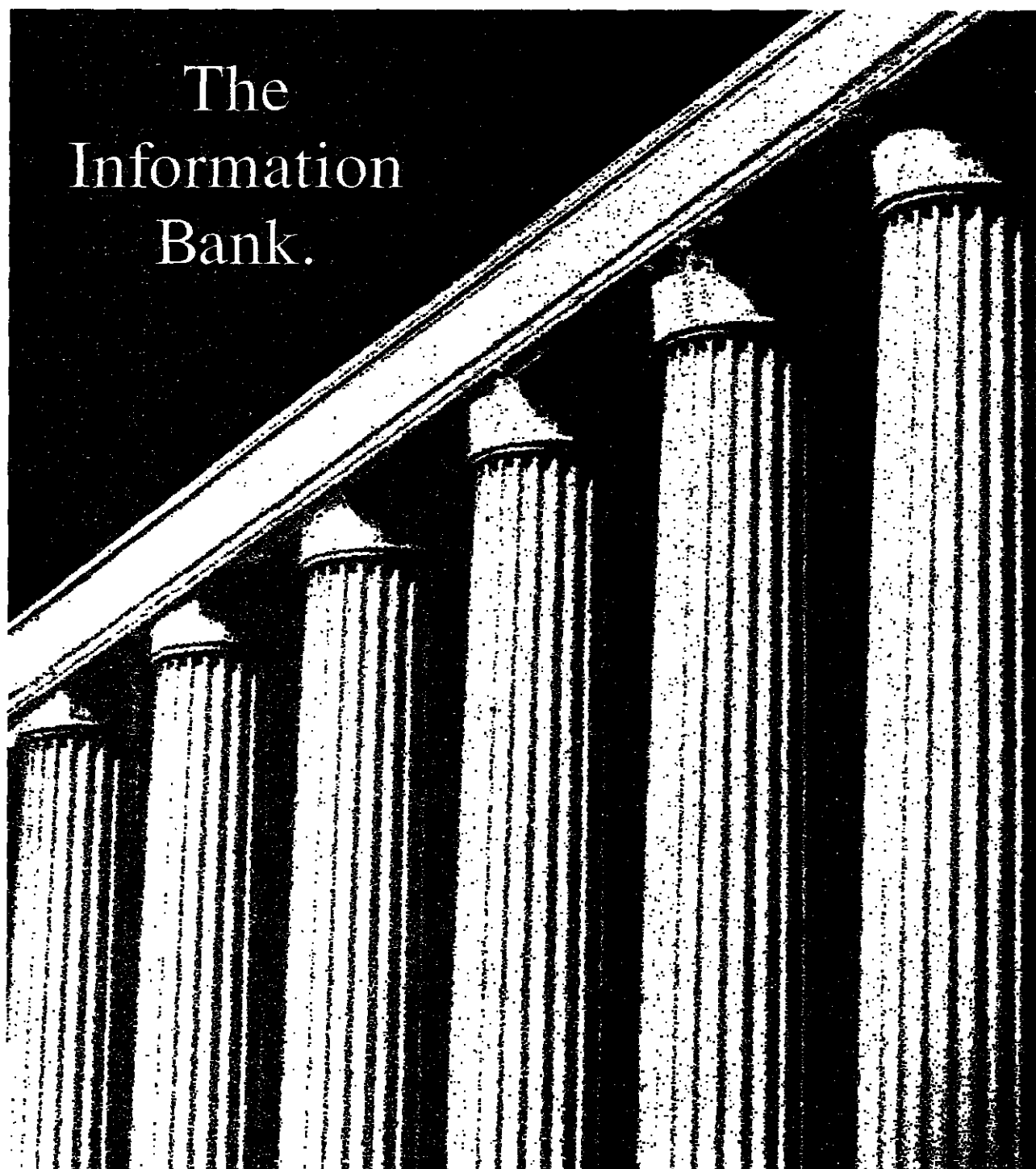


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CONSUMER CREDIT AND ASSET FINANCE 6

The industry: Alison Smith looks at the range of finance companies

Range of participants widens



Financial leasing is helping to build new businesses in many ways. Pictured above are the management buy-out team at Pascon, the scaffolding and plant hire company. The success of the buy-out partly depended on help from Lombard Business Finance, National Westminster Bank and 3i, the

venture capital group, also helped finance the buy-out. From the left are Gary Leitch, senior executive, Lombard Business Finance, Ian Brain, financial director of Pascon, Kevin Bright, managing director of Pascon, and Richard Priestman, of Lombard Business Finance. (See page 3)

Would you buy a car through a merchant bank? Would you ask the people who make or sell your television set for a loan?

Though the instinctive answer to both questions is "probably not", the percentage of individuals and businesses who respond positively demonstrates the wide range of companies in the consumer credit and asset finance industry.

A glance down the membership list of the Finance and Leasing Association reveals some implausible participants: the Automobile Association, Kodak, Marks and Spencer, and Bank Xerox are all among the organisations with offshoots in this area of finance.

This does not mean, however, that these or the more predictable financial institutions in this sector are all in direct competition. Rather, it reflects the varied types of finance with which the sector deals.

At one end of the scale are the unsecured personal loans - perhaps with a minimum of £500 - offered by all the leading high street financial institutions. At the other end are the asset finance arrangements set up by merchant banks as part of the financing services they provide to their large corporate clients.

"We have done tiny, tiny deals as favours," says Andrew White, joint head of financing at Kleinwort Benson where the main lines of asset finance are in the vehicle, information technology and aerospace markets. "But ideally we don't want to do a deal below £2m."

Between these extremes is a range of finance where there is room for mainstream providers and companies which have identified specific niches to win substantial shares of relatively narrow markets.

For example, First National Bank, the core consumer finance arm of First National Finance Corporation, specialises in providing suppliers of home improvement goods and services with financing deals they can offer customers at the point of sale.

Point-of-sale finance is just one way in which competition to provide or arrange finance between merchants as well as to provide the more conventional sources of funds is intensifying.

Take the case of someone buying a new kitchen or double glazing. These customers might think first of obtaining finance from the bank or building society with which they deal. But they are also potential financial clients for the retailer or manufacturer from whom they are buying.

The principles are the same



Fruitful business: financial leasing for big-ticket items is no longer limited to single assets. Mark Allen (left), senior account executive at the London South

Business Centre, and Clive Manning, group financial director of J P Fruit Distributors Ltd, have good cause to smile. Lombard Business Finance

provided vital support to help bring a project for ripening bananas in special sheds to a successful conclusion. (See page 3)

in corporate business. A company replacing a fleet of cars might consider approaching the merchant bank which advises it about the other aspects of its financial arrangements, but, equally, will face a determined effort from motor companies to win its business.

The varied backgrounds and structures of consumer finance organisations enables them to put forward different selling spiels, from convenience to financial expertise or long experience in the goods or services being sought.

All the largest clearing banks have their own finance houses through which they offer leasing and structured finance for personal customers and small businesses, directly or through the bank itself.

The growing importance of finance houses is illustrated by their increasing contribution to bank profits. In turn, the finance houses believe that being part of a larger banking group can also assist their business.

For example, Forward Trust, Midland Bank's finance house, says the main benefit is in the competitive and attractive funding rates it can offer as part of the larger organisation.

Less important, there is also the prospect of referrals from customers who approach the banks through its branches.

Like the finance houses in the banks, consumer finance arms of building societies say that their position in the group gives them the benefit not just of the scale of inquiries but also of the brand name.

"Customers know and trust the organisation," says Richard Roche, head of marketing at Alliance & Leicester Personal Finance.

There is, however, a restriction on the type of consumer finance building societies can offer. Although relaxations in rules are on the way, at present societies cannot lend for business purposes.

This can lead to difficult decisions in dealing with sole

traders. A taxi driver applying for a car loan would have to be turned down if it was obvious that the vehicle would be used for business, but a plumber wishing to buy a car would be eligible for a loan unless the vehicle was primarily for business use.

Different restrictions can apply where a consumer finance arm is part of a broader organisation.

At Marks and Spencer, for example, the financial services operation is expanding next year to add life insurance and pensions to the charge cards, personal loans and unit trusts it already offers. But earlier this year, Keith Oates, joint managing director, stressed: "We are first and foremost a retailer. Our financial services arm ought to be allowed to expand as it thinks fit without disturbing the plan for the whole group."

Ford Credit, part of the financial services subsidiary of

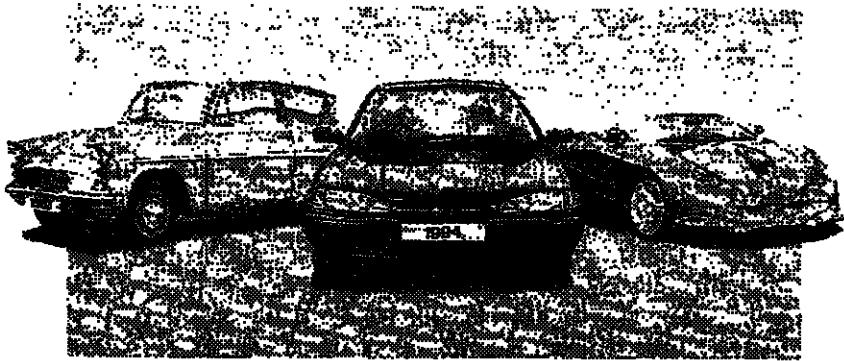
Ford Motors, readily acknowledges it is a "captive". It says, however, that this does not unduly hamper its operation or development. Under the terms of the European Second Banking Co-ordination Directive it is a bank in its own right, and in 1993 it was among the top 10 finance houses in the UK.

Whatever their parent organisations, consumer credit and asset finance operations face opportunities and challenges in the months ahead.

The good news is that much of it should benefit from the recovery as businesses re-tool for expansion: in particular, the car market generally responds quickly to growth in the economy.

What is not such good news is that margins are narrowing. As one asset financier put it: "Foreign competitors are coming back to the UK market a bit early, there are not enough deals to go round, and so they cut prices to buy volume."

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TURKISH FINANCE AND INDUSTRY

Thursday November 3 1994

This has been a dreadful year for business in Turkey. In March, financial markets collapsed, the Turkish lira lost over half its value and inflation topped 100 per cent.

For a few tense days, the entire economy ground to a halt. Shops emptied, factories stopped working. On one spring weekend, just one car was sold in the whole of Turkey. After averaging 6 per cent growth since 1990, the economy is now contracting by 4 per cent.

Yet many executives believe this severe crisis may finally have shaken politicians out of their complacency and crystallised public opinion in favour of free-market reforms.

Mrs Tansu Ciller, prime minister since June 1993, bears great responsibility for the mess, for allowing a consumer binge and speculative bubble to run out of control. The result has been: a 1993 budget deficit of 18 per cent of GNP and a current account deficit six times larger than the year before.

Confidence evaporated in January when Wall Street rating agencies marked Turkey's debt below investment grade, the central bank governor resigned and capital flooded out of the country. By March, Turkey was facing financial meltdown.

Mrs Ciller adopted a stringent stabilisation package in April to deal with the immediate crisis. The International Monetary Fund agreed to a two-year \$58.2m standby loan in July, based on an aggressive programme of emergency taxes and spending cuts.

The economy minister, Mr Aykon Dogan, now claims total success in meeting the IMF's targets, especially on deficit-reduction. He says: "We have diminished the public sector borrowing requirement to 10 per cent of GNP, and it will no doubt be further diminished to 7 per cent in 1995. People said our programme was impossible to apply. But we are serious people."

The government also asked the World Bank for loans to support public sector reform that would attack the econ-



Away from it all: what else should the ordinary citizen do when his country's economy comes to a halt?

Picture on the Istanbul waterfront: Terry Kirk

Consume less, borrow less

This year's economic crisis may have shaken politicians out of their complacency and crystallised public opinion in favour of free-market reform

omy's underlying problems. Six months on, though, progress is barely noticeable. A weary World Bank staffer summarised Turkey's problem as "simply a situation where the government is too big and revenues too small".

Turkey must privatise state companies, eliminate subsidies, modernise the tax and social security systems and sweep away red tape. Determination, or the lack of it, to pursue public sector reform will shape Turkey's business environment in the years to come.

Mr Unal Korukcu, chief executive of Ankara's big Isbank, warns: "We face a tough period for some years. Turks must accept the fact that they must consume and borrow less."

Privatisation has split the

weak coalition government of Mrs Ciller's conservative DYP party and the social democratic SHP. Political stalemate is also delaying negotiations with Brussels over establishing a customs union. This requires adoption of European legislation, especially on competition and intellectual property. But these new laws, which would further underpin reform, are making slow progress in parliament.

Mrs Ciller is a US-trained economist. She knows reform is ultimately unavoidable and that it would place Turkey on

a sound long-term footing, albeit at the cost of prolonging the current recession.

Yet she is a politician first, the leader of a weak and divided government. General elections are due by November 1996. Most business leaders - who dislike and distrust her - expect Mrs Ciller to equivocate and for Turkey's economic problems to return with redoubled force in 1996.

Still, economists expect the encouraging demand and production trends of recent months to build into 2-3 per cent growth next year, just

enough to keep up with population growth.

Business executives are confident that public support for structural reform is approaching critical mass. A sound economy would certainly make management a less seat-of-the-pants affair and investment would recover.

But banks and companies would lose easy pickings in financial markets. They would miss the tax system's gaping loopholes and lax enforcement. Import tariffs are already falling. Intensifying competition, especially after customs union,

will further depress industry's high margins. Companies will also lose big government contracts and subsidies - although these are mixed blessings, since debt-ridden Ankara always pays late.

It seems certain that Turkey's handful of conglomerates, which grew so powerful in the old hothouse economy, will continue to dominate the business scene. Few others can yet match the financial strength, market share, political connections and management skills of the pre-eminent Sabanci and Koc groups.

Yet small and medium companies have grown strongly, able to deliver intermediate technology goods as well made and well priced as anywhere else in the developing world.

Recession and murderously high interest rates now threaten these often undercapitalised companies with bankruptcy. Fortunately, even very small companies can go public. Listings on the Istanbul market have grown by one-fifth to 169 companies since January 1993.

Turkey's strengths are its typical developing-country characteristics - rapid economic growth, a large and fast-expanding population, low operating costs - with the added benefit of some highly sophisticated companies, proximity to Europe and, if all goes well, customs union with an expanded European Union.

However, investment is too low. A US observer commented that under-investment is "something [companies] have to worry about. They have to continue improving productivity and sophistication, but it's not happening." He says research and development spending in Turkey is equivalent to only 0.5 per cent of GDP.

Instability discourages foreign investment: Turkey has received just \$13.45bn in inward investment since 1980, mostly in the transport, cement and food processing industries. The underdeveloped legal system, where rulings can take years to obtain, may further discourage investment as business becomes more sophisticated and competitive.

Already a large part of the economy has gone underground to escape the incompetence and over-regulation - as well as the taxes - of officialdom. The underground economy helps explain why, in a year of such difficulties, the streets of Istanbul remain choked with traffic instead of protesters.

Professor Osman Altug, of Marmara University, says the unregistered economy has grown to 41 per cent of GDP from 34 per cent in 1992. Unregulated sales of consumer goods to smugglers from Russia, eastern Europe and central Asia alone provide about 200,000 jobs. The textile industry probably has unregistered exports of about \$3bn a year.

But the informal economy

also spawns corruption, loan-sharking and organised crime. Press reports of connections between gangsters, state companies, businessmen and senior politicians further reinforce the public's view of businessmen as flashy Mercedes-driving racketeers.

Disgust at corruption in state companies, their inefficiency - Istanbul ran out of water this summer - and the heavy financial burden they impose on the country are changing Turks' traditional view of these companies as the heritage of Kemal Ataturk and the economy's bedrock.

Yet public sector reform is blocked by fear of unemployment. Mr Dogan himself says three-quarters of the public sector's 2m employees are not needed. Mistrust of the business elite is probably another important factor delaying privatisation. And politicians fiercely resist any measure that reduces patronage.

The rise of the Islamic Refah party is frequently seen as a reaction against incompetence and corruption. The business elite and middle classes are growing further apart from the

Survey by
John Barham

With contributions by
David Tonge and Andrew Finkel

40-45m ordinary Turks struggling to survive on the land or in big city slums.

Polarisation is not just politically dangerous. It is bad for business. Turkey needs a strong, well-balanced domestic market for companies to grow and exports to expand.

But Turkey lacks determined leadership. Mr Erol Aksoy, owner of Istanbul's Iktisat Bankasi, says: "We need strong governments. We need a government [to begin reform] that is at the beginning of its term not at the end."

Turkey is still waiting for a successor to Turgut Ozal, the decisive former prime minister and president who mapped out reform in the 1980s but died last year.

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TURKISH FINANCE AND INDUSTRY 2

When Turkey's economy crashed this spring, the prime minister, Mrs Tansu Çiller, reacted by concocting a remedy so severe that even the International Monetary Fund feared she was going too far.

Despite its misgivings, the Fund - after prodding from Turkey's allies in Washington and other western capitals - quickly agreed to a \$756.2m standby loan in July.

In her letter of intent, Mrs Çiller promised policies that could only gladden the IMF's heart: spending controls, a clamp on public sector wage claims, public sector price increases and restrictions on central bank lending to the Treasury. The government also imposed a range of one-off taxes to help close the budget deficit of 12 per cent of GNP.

Ibca, the London-based rating agency, commented: "The projected tightening in policy is worth more than 10 per cent of national income over just nine months. This is one of the most severe fiscal packages ever imposed on an economy in such a short period of time."

The government now says it has met its principal targets of lowering inflation (expected to drop to 20 per cent at annual rate by December), redressing external imbalances (the current account was \$1.1bn in surplus by July) and rebuilding central bank reserves (up to \$7bn in October).

Mr Yaman Törner, central bank governor, says triumphantly: "All the IMF figures are met. We are the best performing country the IMF has ever met."

However, sceptics are not convinced. One foreign economist says: "Çiller's package was comprehensive, but the thing that concerned outsiders was that they were not very front-loaded. There were too many announcements."

The key difficulty is dealing with the gaping public sector deficit, the central cause of Turkey's external imbalance and inflation. The 1995 budget forecasts a deficit only one-quarter the size of this year's. Few independent economists think the government will hit this target. No government since 1980 has ever come near to meeting its budget targets.

Ibca calls this "a breathtaking record of fiscal incontinence".

Economists complain that Mrs Çiller has relied on too many one-off tax and spending measures and is too optimistic in her 1995 tax and growth assumptions. Furthermore, elections are looming, and she will certainly be tempted to try and spend her way to victory.

Inflation and interest rates will not fall until the government stops overspending. Interest charges already consume one-third of the govern-



Under pressure: Mrs Çiller's fiscal package has provoked concern

Turkey: macro-economic data			
	1994	1993	1992
GNP (\$bn)	na	175.61	155.66
GNP growth (% change)			
over previous period	-4.2*	7.60	7.30
Population	61.2m	59.9m	58.6m
GNP per capita (\$)	n.a.	2,931	2,655
Public sector borrowing requirement (% of GNP)	10.3†	11.9	10.9
Consumer prices (change % over previous period)	67.2‡	66.1	70.1
Exports (\$bn)	7.81*	15.61	14.89
Imports (\$bn)	10.43*	29.77	23.08
Balance (\$bn)	-2.62*	-14.16	-8.19
Current account (\$bn)	0.30*	-5.38	-0.94
Capital account (\$bn)	-1.65	8.96	3.65
External debt (\$bn)	67.25§	67.36	55.59
Exchange rate (average Turkish lira/\$ rate for period)	25,108¶	10,986	6,887.5

*Jan-June; †first quarter; ‡second quarter; §second quarter; ¶second quarter

The economy: far-reaching reform is proving slow

Short-term overkill?

ment's \$39bn annual budget - the same as its wage bill. Mrs Çiller's attempt last year to drive short term-rates down little progress in talks with the World Bank, which it asked in April to support public sector reform. A World Bank official says the main objective is to improve macro-economic management, with emphasis on privatisation, social security [system reform] and revenue

Mr Törner says he is not lending to the government at the moment.

The government has made little progress in talks with the World Bank, which it asked in April to support public sector reform. A World Bank official says the main objective is to improve macro-economic management, with emphasis on privatisation, social security [system reform] and revenue

because the state companies' deficits are unsustainable. The only question is whether it will be carried out by this government or after general elections to be held by November 1996.

The government may be slow at public sector reform, but it is making good progress in tax reform. It has reduced tax exemptions, tightened up on enforcement and reduced corporate tax rates to 25 per cent from 46 per cent. Next year, for the first time, Turks will be given individual tax numbers and the tax authority fully computerised.

Much still needs to be done. Turkey's tax burden of 20 per cent of GNP (excluding social security contributions) is the lowest of any OECD country, and is even lighter if one allows for the large underground economy. And the country is moving too slowly to reform the bewildering array of incentives, loans at negative real interest rates, duty exemptions and subsidies to business. The World Bank says these supports are indiscriminately accessible and poorly targeted.

Turkey's economic problems are not overwhelming. It has a flexible, diversified and energetic private sector. Its fundamental problems are political: retrograde politicians and their hunger for patronage are preventing far-reaching reform.

Economists complain that Mrs Çiller has relied on too many one-off tax and spending measures

high levels. In October, real interest rates were as high as 40 per cent a year.

Upbeat as always, Mr Törner says: "We want to have a very stable monetary policy. After [any crisis] it is normal for there to be some fluctuations, but [with time] these fluctuations will get smaller and smaller."

Even Mrs Çiller's few structural changes smack of vacillation. She restricted central bank lending to the government, but not too much. This year, for instance, the central bank can lend the Treasury the equivalent of 15 per cent of the budget. Lending must fall by three percentage points a year until ending in 2000. However,

nues, and then on project lending to emphasise health, education, urban infrastructure and supporting transformation of the economy."

Mrs Çiller is shrinking from reforms that would strike at Turkey's patronage-driven political system. Mr Osman Birsan, the technocratic assistant treasury secretary, says frankly: "Adjustment will require political determination, and this process has only just started."

Privatisation has split the cabinet, where partners in the unstable right-left coalition haggled for months over draft legislation to go before parliament. However, privatisation looks inevitable, simply



Many Turks have a European-type lifestyle, observes a Commission official

Europe: customs union is proving a slow process

Delay will not hamper trade

The long countdown to customs union between Turkey and the European Union is entering a final, decisive stage. The two have set a deadline of January 1, 1996, to eliminate nearly all trade barriers between them - 30 years after talks first began.

Turkey's invasion of Cyprus and its 1980 military coup halted progress. Return to civilian rule and co-operation in the 1990-1 Gulf War revived negotiations.

Many obstacles remain. Turkey's parliament is slow in enacting European legislation, especially competition and intellectual-property laws. Brussels opposes Turkey's demands for participation in EU decision-making processes. The European parliament may withhold ratification in protest at Turkey's bad human rights record.

However, trade seems certain to continue growing. Over half Turkey's exports go to the EU, which supplies just under half its imports. Turkey is the EU's tenth largest trade partner.

European companies invested \$8.16bn in Turkey in 1990-93, two-thirds of total foreign direct investment.

Although Europe scrapped trade barriers for Turkish goods 20 years ago - only agricultural products and textiles suffer significant limitations - Turkey still levies tariffs on European imports.

Its average weighted protection against EU products is 12.8 per cent, compared with 17.2 per cent for third countries. European companies therefore stand to gain most from customs union. A European Commission official says: "This is a fast-growing market. About 15-20m Turks have a European-type lifestyle. This is a great market for European producers."

He also argues that Turkey will benefit because "customs unions always increase trade. There will be more investment, co-operation, joint ventures, marketing alliances, more research and development."

Customs union should also close what he calls Turkey's "very big familiarity gap" with Europe. He says: "Turkey feels unloved, unwanted. Political, social, economic [ties] that come with customs union will have great impact."

Many Turkish businesses feel they have little to fear from European competition, because productivity in many industries - textiles, white goods, consumer electronics - is already high.

Still, all will feel the pressure from Europe's larger, more sophisticated and better-run companies. Sectors with the most trade protection will suffer the most. The car industry, with a hefty 39-106 per cent tariff barrier, is a prime candidate for opt-out clauses in the customs union negotiations.

Mr Ali Tigril, ambassador-at-

large for European affairs, says he will push for "derogation" privileges for certain industries, but will not say which.

Brussels, meanwhile, has already warned that it will limit Turkish access to its textile market unless Ankara abolishes tariffs and adopts its competition laws.

Turkey hopes customs union will lead to full EU membership. It has already applied twice for membership, without success. Mr Tigril says: "Customs union is the cement of the European Union." Turkey also hopes to unlock large aid transfers from Brussels, blocked by Greece since it joined the EU.

But even Mr Tigril recognises that Turkey's "increasing element of political uncertainty clouds everything and makes my life more difficult." However, he claims that parliament's delay in approving laws is not a critical obstacle to customs union, as long as it adopts essential competition rules and shows it is making progress in adopting other laws.

Privatisation: public opinion is moving in its favour

Anxiety over losses and graft

Mr Engin Civan may go down in Turkish history as the man who made privatisation possible.

Mr Civan, a former state bank president, was shot and wounded in September. He admitted gangsters were trying to recover a \$5m bribe because he had been sacked before he could authorise their loan. His tale of corruption, power politics and organised crime gripped the country for weeks.

People always suspected state companies were corrupt, inefficient and politicised. But Mr Civan's revelations accelerated a gradual shift in public opinion in favour of privatisation.

The state's industrial giants are formidable loss-makers. Last year, they contributed one-fifth of the public sector borrowing requirement of \$29.72bn. Next year, according to the government's optimistic draft budget, their losses will shrink to \$1bn.

State companies control or dominate the telecommunications, airline, iron and steel, mining, petroleum and electric power industries. The state owns the biggest banks. State companies employ 883,000 people, about half of them surplus to requirements.

The first privatisation programme was announced in 1984.

But no government was ever interested in reducing the public sector. Privatisation has raised just \$2.2m in 10 years. Three-quarters came from sales of minority stakes in private companies. Only \$600m were "real" privatisations, mostly in peripheral sectors.

The companies' losses, their inefficiency - water is rationed in Istanbul, power-cuts are frequent - and the corruption oozing out of them make privatisation seem only a matter of time.

In January, the prime minister, Mrs Tansu Çiller, recruited Tezcan Yaramanci from the private sector as her new privatisation supremo. He says: "I believe today that Turkey has advanced more in the last 10 months than in the last 10 years."

But privatisation has split the government. Mrs Çiller's junior coalition partner, the social democratic SHP party, blocked privatisation until her DYP party approved a political liberalisation package.

Earlier this year, Mrs Çiller tried to impose privatisation by decree. The SHP appealed to the constitutional court, which

ruled that the government must win parliamentary approval first. She only won the SHP's grudging support in October. But even MPs from her own party and the conservative opposition Motherland party, as well as SHP members, threaten to oppose the bill.

Mr Yaramanci expected to raise \$2.5bn from privatisation in 1994. His 1995 target is \$9-12bn. He insists he can still raise \$1.5bn this year: "From the organisational point of view, privatisation is ready to go. Right now there are two or three companies ready. International investment circles have been contacted. There is demand for these companies."

However, even economy minister Aykon Dogan considers these targets far too high. Etilbank and Stimerbank, two small banks, would be first on the block. Fifteen per cent of privatisation revenues will go to a severance-pay fund for state company employees who lose their jobs.

Big companies, such as the telephone system or the national airline THY, would

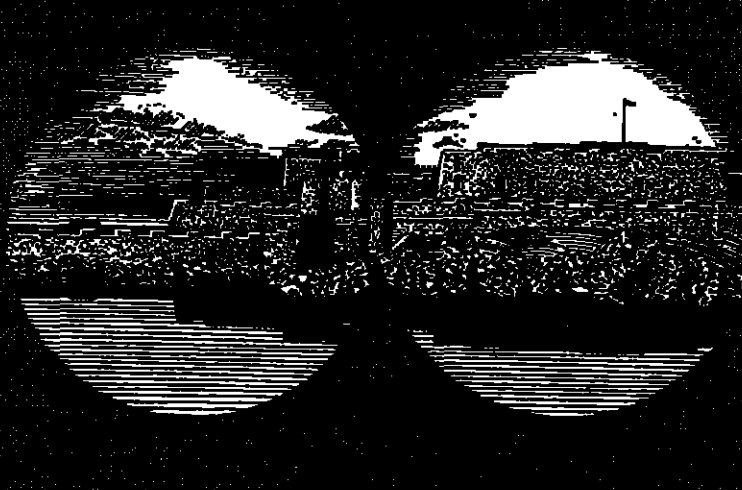
probably find ready buyers. But others will be a very hard sell. The Erdemir steel works or state banks need lots of costly restructuring.

The government has started tightening controls on its companies. They are now subject to commercial law. In theory, they can be declared bankrupt. Tadas, the electricity distributor, is trying to put itself into a profit-first footing. Mr Mehmet Bozdemir, Tadas general manager, says: "Before, the state came first. Now profit comes first."

Mr Yaramanci says he will break companies up into individual business units prior to privatisation. But "restructuring [for] productivity increases is left to the private sector after privatisation."

The proposed regulatory systems looks messy. The government hopes to sell 49 per cent of the telephone company to strategic investors who would hold management control. The government, using its 51 per cent stake, would retain a regulatory role. It plans to privatise the electricity generation industry, but retain a distribution monopoly. This is a recipe for confusion and conflict, which is unlikely to attract many investors.

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هكزامن الاصيل

Banking: the credit-rating crisis has exposed the system's weakness

Good-bye to easy money

Bankers are not happy. Most expect profits to fall in real terms, for the first time in recent memory. Mr Erol Sabanci, vice-chairman of Akbank, part of the Sabanci business empire and one of Turkey's biggest banks, reckons 1994 pretax income will slide 43 per cent to \$184.2m.

But after years making easy money, bankers are in no position to complain. They have piled up profits by playing a rudimentary arbitrage game stacked in their favour.

Banks used Turkey's once-high credit rating to borrow cheaply overseas, and used the money to speculate in fast-moving financial markets or to lend to the government. Not only did the government pay high interest rates, it also allowed the Turkish lira to appreciate, handing banks a 40 per cent margin.

So it is hardly surprising that net profits at Turkey's 10 biggest banks rose 41 per cent in dollar terms last year, to the equivalent of \$306.2m. Assets rose to

\$47.44bn from \$44.33bn.

But the game was up in the spring, when Turkey's credit rating dropped below investment grade, and currency and financial markets collapsed. Luckily, only three small banks crashed. But the crisis laid bare the system's weaknesses: over-reliance on trading, narrow local deposit bases, unadventurous lending and investment banking arms.

Although bank profits have taken a heavy hit, the government's insatiable appetite for money is keeping interest rates sky high. In May, interbank rates reached Latin American heights of 1,000 per cent a year. Even when rates settled down to 85 per cent in the autumn, they were still equivalent to a real 40 per cent as inflation fell.

Clearly, banking can still be good business as long as executives are careful about their risks. Banks with a strong local deposit base have lower cost of funds and are less exposed to currency risk.

Mr Sabanci says: "Akbank's main source of funding is local currency. Our [foreign currency] positions are 10 per cent of liabilities. Compared with some banks with 90 per cent, this is a tremendous difference."

He says Akbank's strengths are a sound balance sheet, a healthy loan book and conservative management. Indeed, even its 38 per cent leap in profit last year looks hesitant compared with some competitors' gains of 80 per cent.

The big Turkish banks are impressively manoeuvrable. They have invested in technology while cutting jobs and branches. They have good, professional management teams, even though ownership is retained by powerful families. The big banks exceed international capital standards. Many blue-chip banks also own big industrial holdings. Depending on one's point of view, these are either a source of weakness or a source of strength.

Isbank, the largest non-state bank, has stakes in 84 companies, including control of Sise Cam, Turkey's leading glass manufacturer. Garanti Bankasi, part of the Dogus industrial conglomerate, also holds stakes in group companies. Iktisat Bankasi, a highly-regarded medium-sized bank, has holdings in television, newspapers and manufacturing companies.

Akbank is a minority partner in Sabanci group joint ventures with multinationals such as Toyota, Philip Morris and Ladbroke's. It has a leasing company with BNP and Dresdner Bank. These holdings are usually booked at cost, not market, values. Mr Sabanci argues that these under-valued equity stakes represent strong hidden reserves. He says that although Akbank's equity holdings are booked at \$30m, their market value is now about \$300m.

But analysts complain that

	Assets (\$bn)			Net income (\$m)		
	1993	1992	Change %	1993	1992	Change %
Ziraat*	12.29	11.88	5	741.2	747.4	-1
Emisbank*	8.40	8.11	5	84.2	44.3	45
Is Bank	5.46	5.23	3	218.0	121.6	80
Yapi	4.86	4.01	21	85.4	73.5	16
Akbank	3.82	3.67	7	238.4	178.6	33
Halk*	3.74	3.28	14	22.4	45.0	-50
Vakif	3.13	3.36	-7	8.0	55.7	-84
Pamuk	2.86	2.89	-1	35.9	38.1	-6
Garanti	2.85	2.40	11	207.8	146.1	42
Turkbank	2.04	1.63	25	19.8	13.5	46
Total	47.44	44.33	7	1,643.01	1,464.8	12

*State banks

Source: bank annual reports and IMF

banks receive insufficient dividends on these holdings. Akbank's 1993 gains from participations and investments was just \$19.5m. But Mr Sabanci says the capital value of these equity stakes is growing.

Furthermore, ownership of banks such as Akbank or Garanti lies with holding companies that also own big industrial companies. Problems on the industrial side could weaken the banking arm and vice versa. Analysis complains that, while small banks play too fast and loose, big ones play it too safe. Akbank, they say, should boost profits by being less risk-averse. Garanti has been slow to develop retail

products like consumer finance, credit cards and unit trusts.

Garanti aims to grow by targeting smaller, more profitable, upscale segments. Its share of Visa and American Express credit-card operations, for instance, is bigger than its share of credit cards in circulation.

Some cassandras say banks are less profitable than they seem. Mr Selcuk Abac, chairman of Istanbul's IBAR bank rating agency, says inflation overstates profits and is corroding the system's capital base. He says banks "absolutely need to raise profits and productivity", both to adjust for the risky operating environment and to rebuild capital.

Whatever the private banking system's shortcomings, they are nothing compared with the problems of the state-owned banks.

Ms Arzu Turksoy, an analyst at Global Securities, an Istanbul brokerage, says: "State banks make inefficient use of their huge assets and have very poor management. Profit is never considered the first variable. They do not operate as banks. They make symbolic returns from state sector."

Their accounts are not audited to international standards. They do not provision for loans to state enterprises and co-operatives, many of which should be classified as non-performing.

Even so, nearly all the state banks still perform dreadfully. The four largest last year raised assets by 4.5 per cent, but net income fell 6 per cent in dollar terms. In comparison, the six biggest private banks raised assets 10 per cent and net income 41 per cent.

The state banks' size and inefficiency distorts the banking system, raising costs for private borrowers. Not everyone complains, though. Mr Erol Aksoy, Iktisat's owner, says bluntly: "Spreads are so nice because of the state banks. With a bit of luck and good management you can make a killing."

The private banks' fortunes should revive in 1995 if, as expected, the economy bounces back. However, small banks are perceived as risky and will probably continue losing depositors to bigger, safer competitors. The large banks with their lower costs will be the best-positioned to benefit from recovery.

That said, the day will come when the state will stop lining the pockets of Turkey's bankers. In other high-inflation countries, stabilisation brings a big drop in income and a painful transition period as bankers hit the slow lane of corporate finance and consumer lending.

Investment bankers' hour

Investment banking in Turkey is still in its infancy. Capital markets are primitive. Mergers and acquisition activity is limited, and the scope for advisers even more so. Treasury operations are unsophisticated, given the absence of complex financial instruments.

Even so, demand for investment banking services is bound to increase as the economy, companies and the financial system develop.

Already, banks and brokerages are gearing up for a big fight in investment banking. Garanti Bankasi, Turkey's most profitable bank, bought into the investment banking business as far back as 1982 when it acquired Tasarruf Kredi Bank and renamed it Garanti Investment Bank. This year it moved its broking arm to the investment bank to further strengthen its presence in the market.

Dormant mergers-and-acquisitions business may also pick up with the approach of customs union in 1996 with the European Union. Istanbul bankers think Europe-based companies will want a greater presence in Turkey, just as local companies may have to exit competitive sectors.

Initial public offerings are advancing steadily, despite the stock market's poor health. The trouble is that deals are usually small by international standards, and many companies avoid using banks altogether. Last year, there were 18 initial public offerings. There were 13 by October this year, with floatations varying from under \$2.0m to nearly \$50m.

Privatisation will mark the beginning of megabuck investment banking deals in Turkey.

It may still be a distant prospect, but bankers are confident that privatisation will generate millions in fees, and transform narrow capital markets, enabling bigger and more sophisticated deals to follow. Some of the biggest companies in Turkey - the telephone network and national electricity utility, for instance - are on the government's privatisation list.

A bigger local market would prevent even relatively modest deals migrating offshore, especially to New York's ADR market.

The advent of private funding for infrastructure projects will also require capital market backing. Although the government has talked for years about introducing build-operate-transfer rules for projects like dams, roads and power stations, not a single one has come off the drawing board.

Nonetheless, the bankrupt state will eventually have to cede big-ticket projects to the private sector. Electricity consumption is growing by 10-12 per cent a year.

BOT deals will probably require a blend of conventional project lending with more innovative investment banking products.

The downside is that high-tech investment banking is a difficult, fast-moving business in which even the biggest local participants will be overshadowed by the New York- and London-based giants. They will have to scramble for the crumbs when it comes to handling big projects.

The stock market has halved in dollar terms this year

A superficial culture

Istanbul has everything an emerging-market investor could want: exotic location, loose regulation and boom-bust price shifts. It is not unusual for average prices to move by 4-5 per cent in a day.

It also has all the usual disadvantages: sharp practices, poor disclosure rules, shaky accounting rules. Liquidity is also a problem with daily turnover of only \$125-160m. Just 10 companies account for over half of turnover. What goes up also comes down with a bang: the market index has halved in dollar terms this year, after crashing heavily in April.

Turkey's great attraction is the earnings potential of some companies. Migros, the supermarket chain owned by the Koc conglomerate, had a net 3 per cent margin on sales last year - roughly six times more than a comparable company in a mature market.

Ciment As, a cement company, had a 1993 net margin of 29 per cent.

Last year, big private banks lifted earnings by an average 40 per cent, although profits will fall sharply this year.

The stock market is just nine years old, so it is understandable that Turkey

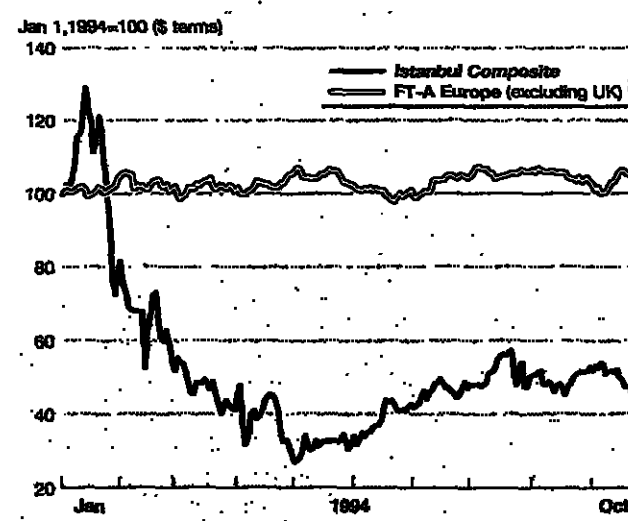
should have a superficial equity culture. Mr Albert Nekimken, head of research at brokerage Global Securities, says: "Even listed companies resist giving information to analysts. They don't care what the price of their shares is. Companies need education. We are doing missionary work."

Although more companies are using the market to raise capital, Istanbul still cannot handle big floatations. Large companies prefer ADR listings in the US, both for prestige reasons and because the local market is too narrow. Brokers hope privatisation will change this, as big state companies come to the market.

Istanbul should also become more mature as international investors increase their presence. According to Mr Serhat Gurleyen, head of research at the broking arm of TEB, an Istanbul bank, foreigners hold about 20-25 per cent of the market's free float. Only about 17 per cent of the \$21.28bn market capitalisation is traded, giving foreign participants a mere \$904.4m exposure to Turkey.

The Istanbul Stock Exchange is modernising its operations. Electronic trading, currently used only for the most liquid companies, will

How the market has moved



cover all shares. Settlement and custody will become fully electronic.

It is thinking of introducing a wholesale market. It also wants to link up with the even newer markets of the former Soviet central Asian republics. It has applied to the government for offshore status to become a regional financial

centre. Commissions are deregulated, varying between 0.3-0.7 per cent. There is no restriction on holdings by foreigners, although they do not have voting rights. Foreigners pay no tax. Although highly unstable, the lira is fully convertible. There are no exchange controls.



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TURKISH FINANCE AND INDUSTRY 4

Business: the two dominant corporate giants face fresh challenges

Koç and Sabancı adapt to competition and new rules

Two corporate logos adorn nearly every street corner, shop and office building in Turkey.

One is the red ram's head emblem of the Koç business empire. The other, the big white and blue letters SA, the first two letters of the Sabancı name.

These two giants have dominated the Turkish corporate scene for over a generation, with interests from chocolates to cars to banking to textiles. Together their annual revenues of \$30.73bn are equivalent to 12 per cent of Turkey's GDP.

Both face similar challenges as liberalisation and competition intensify. The principal factors in their success - trade protection, strong political connections and firm management - no longer apply as they once did.

Both groups were built up by poor men at the dawn of Turkey's industrialisation 70 years ago and are still controlled by their founding families. Haci Omer Sabancı began working at 14 and first went into business in 1933. The Sabancı family remains the group's principal shareholder and the founder's five sons now run the company.

Vehbi Koç, 94, still comes to the office nearly every day. His company's headquarters in a converted Ottoman palace controls a far-flung empire with annual sales of \$14.45bn.

The two became the partners of choice for multinationals setting up business in Turkey, further broadening their activities, profits and business skills as they learnt from the foreigners.

Koç's first alliance came in 1928 when it started distributing Ford cars. Now it makes Ford Escorts and Orions as well as Fiat cars under licence. Sabancı has joint ventures with the likes of Toyota, Philips Morris and Belgian steelmaker Bekaert.

These companies are highly profitable: Koç's group pretax earnings rose 55 per cent in dollar terms to \$1.3bn last year. Sabancı advanced far

more slowly, rising 3 per cent to \$633m before tax, giving a 10 per cent return on revenues. Analysts warn that their complex pattern of interlocking shareholdings and the vagaries of inflation accounting make it hard to monitor the groups' true financial situation.

The controlling families realise change is needed. In January, Koç introduced a flatter management structure, with a headquarters staff of only 200, that granted subsidiaries greater freedom. Eleven divisional presidents supervise the group's 106 companies, with final responsibility in the hands of a single CEO, İnan Kırpaç, a professional manager.

Mr Kutsan Çelebiçan, Koç's finance vice-president, says "We have very strong financial controls, but have a general policy of leaving companies alone. We approve their budget and provide targets and indicate expected inflation and exchange rates."

Although top managers are increasingly young, foreign-educated MBAs, these groups have acquired a civil service atmosphere. Koç executives tend to spend all their working lives in the company. Very few are recruited from other companies. It does recruit some senior executives, such as Mr Çelebiçan, from the top ranks of the finance ministry.

Koç even likes making five-year plans. It abandoned five-year planning this year because of high inflation, but is back at work on a new one. Instability is undoubtedly bad for business - car sales have fallen by a third this year, forcing Koç's Tofaş car plant to halt production for six weeks. Although executives insist that they are not postponing investments, analysts say capacity expansion at Tofaş has been scaled back.

Last year, Koç raised fixed assets and investments 16 per cent to \$1.68bn. But Sabancı's

investments dropped nearly a third in dollar terms to \$365.3m.

Diversification is out of fashion these days. Sabancı claims it is focusing its business more tightly, but its five core businesses still cover all the main segments of Turkish industry.

Mr Erol Sabancı, a group director, says: "The industrial side is diversified in 50 industrial sectors, so the risks from failure are reduced." He adds that even apparently unrelated companies provide synergies: the textile companies produce cord for the tyre company which supplies the car company.

Despite its wide spread of businesses, Koç gets 75 per cent of its revenues from cars, white goods and consumer electronics. Executives argue that their dominant share in these sectors is a crucial defence to growing foreign competition. Divestment from unrelated companies may come with time.

In the past, protection provided companies with high margins, which allowed them to fuel expansion with retained earnings, keeping borrowing to a minimum. However, import protection is declining, so margins must fall. Furthermore, the capital cost of new investment is rising. Outside financing will become an increasingly important issue.

Koç is already using the stock exchange to raise capital. Mr Çelebiçan says: "It is the founder's policy that when a company is financially sound it should offer shares to the public, because there is not a long future for family companies. All the money [from share sales] is reinvested in the companies."

Koç's Arçelik white goods company and its Tofaş car unit are both quoted on the Istanbul Stock Exchange. It has recently listed two more subsidiaries, its Bekoteknik consumer electronics arm and Tat,

a big tomato processor.

But for the time being, neither group is even thinking of giving up majority stakes. Most listed companies have just 15-20 per cent of their shares in the market. Both groups still have plenty of headroom to raise debt. Koç, for instance, has only \$161.7m in long term debt.

The dominance of the two companies is gradually diminishing as new participants appear on the scene. The Doguş group, for instance, began life as a civil engineering company. It has metamorphosed into a banking group with a growing portfolio of other businesses like food, television, retailing and tourism. Ayhan Sabenik, aged 65, founded Doguş in 1951 and is still its chairman.

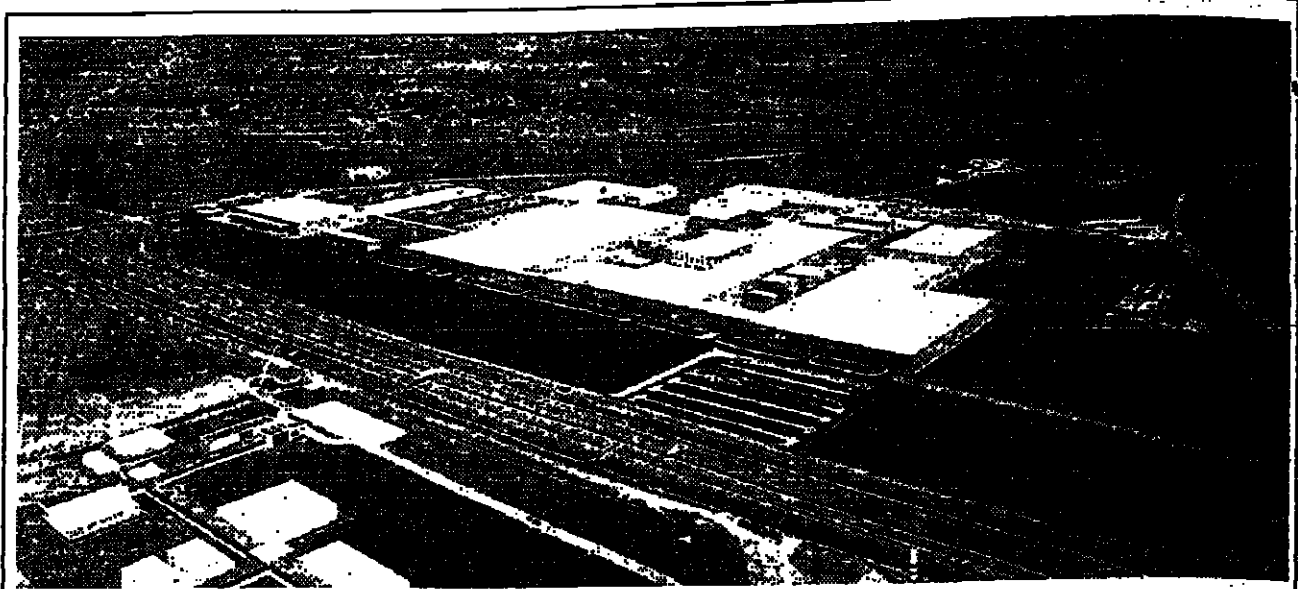
Last year it reported combined revenues of \$1.38bn, and a net profit margin of 17.5 per cent.

Mr Zekeriya Yıldırım, vice-chairman says Doguş aims to become a "well-positioned consumer, service-oriented group." He says this should make it less vulnerable to business cycles.

Inevitably, Doguş has also adopted a decentralised management structure. Mr Yıldırım says: "Each subsidiary stands alone, managed by their own corporate bodies." The holding company handles strategic planning, financial controls and head office services. And, like Sabancı, it insists that its financial and non-financial companies are divided by Chinese walls.

Doguş also insists that what looks like an opportunistic mixed bag of unrelated businesses is really a balance of inward-looking consumer businesses and outward-looking tourism and overseas construction companies.

Turkey's giants grew big and strong in a protected environment. They must learn new skills to prosper in less forgiving conditions. Turkey's chaotic domestic economy is no help. But there is every sign that these blue chips will be around for a long time.



Toyota plant a springboard to Europe

Toyota's gleaming \$400m new car plant outside Istanbul (pictured above), opened in mid-October, is much more than a prestige private investment project. It will radically reshape the country's car industry.

As well as raising Turkey's car production capacity by one-third, the new plant will boost its technological base and, some time in the future, become an export platform to the surrounding region and Europe.

Closer to home, the new facility will break the virtual duopoly that the Tofaş Fiat-Koç joint venture and Renault have enjoyed for 20 years.

Toyota's timing is unfortunate. Passenger car sales this year will fall by a

third to 234,000, according to DRI World Car Industry Forecast, which does not expect output to recover to 1993 levels until 1997.

Nonetheless, Toyota's decision to invest in Turkey is an indication of the market's present and future importance. It is also a sign of confidence in local suppliers' ability to meet stringent quality standards.

Work on the factory began in 1992 as a joint venture between Toyota and the Sabancı group. Toyota holds 40 per cent of the company, Mitsui 10 per cent and Sabancı, together with its Akbank affiliate, the remaining 50 per cent. Half the investment was funded with equity

and the rest with long-term debt.

Toyota's arrival has shaken Tofaş out of its complacency. Tofaş claims 45 per cent of the local market, but is frequently criticised for its reliance on old Fiat models. It has hit back with the launch of new Fiat Tipo and Tempra models only months after their launch in Italy.

But Koç is right to worry about Toyota. According to its annual report, the car business represents half Koç's group annual turnover and pre-tax profit.

The challenge from Toyota is only the beginning. In 1996, customs union with the European Union is meant to come into force, exposing Tofaş to more competition.

David Tonge reviews recent changes in commercial law

Pressure on state bodies

September saw a significant change in commercial law in Turkey. For the first time, state institutions and enterprises can have their assets seized or subjected to attachment, meaning that judgments against them may now be more easily enforced.

Turkish industrialists argue that, with Turkey's state sector accounting for 33 per cent of manufacturing output, this change will force state institutions to improve their performance.

Mr Aslı Bağöz, senior partner in the Istanbul office of White & Case, a leading international law firm, welcomes this step forward, as well as the way that, increasingly, legislation such as that governing the capital markets is prepared with the help of those who will be affected.

Foreign businessmen say that this was often not the case in the past. They also warn that legislation, even if subject to frequent change, has often lagged behind the needs of the market place. Those entering new areas such as franchising have had to rely on the way that the principle of freedom of contract is clearly established in Turkish contractual law. But when specific legislation is required, this often takes time to be introduced, as is currently the case where financial derivatives are concerned.

Turkish law is codified like continental European law, with commercial and family law based on the Swiss system, administrative law on the French system, and criminal law on Mussolini's criminal code. The basic legal structure is clear, with far more areas codified than in, say, Britain, where common law applies. Foreign investors are subject to specific protection under a 1954 law.

The basic legal structures are all in place and on the whole have worn well, despite the underlying shifts in the economy and the impact of inflation.

"The precedents established in the decisions made in the 37 years since the commercial code was introduced have played an important role in keeping the code fresh," according to Mr Mehmet Okur, partner on Okur & Okur, a Turkish law practice active with foreign companies.

However, Yased, the foreign investors' association, emphasises the foreign business community's concern at the lack of protection for intellectual property. There is no patent protection for pharmaceuticals, and attempts to introduce a new patent law have been dragging on for over a decade. Protection of trade marks is slightly improving, but service marks such as a hotel logo may not be protected. Where copyright is concerned, there has been progress in combating film and audio piracy, but not over books.

That said, there are grounds for expecting change. Turkey is under pressure from the European Union, which argues that the customs union due from the end of 1995 requires Turkey to match European practices. Further, as a signatory to the Marakkesh accord of the Uruguay Round of Gatt, once Turkey enters customs union with the EU, it is obliged to observe the Gatt provisions on intellectual property within one year of their entry into force. It is also under pressure from the US, which has put Turkey on its "priority watch list".

Other areas of concern include: ■ The fact that you must deliver possession of most movable assets in order to complete the pledge, which impedes the

development of leasing and secured transactions.

■ The lack of a registration system for pledges and liens over movable assets.

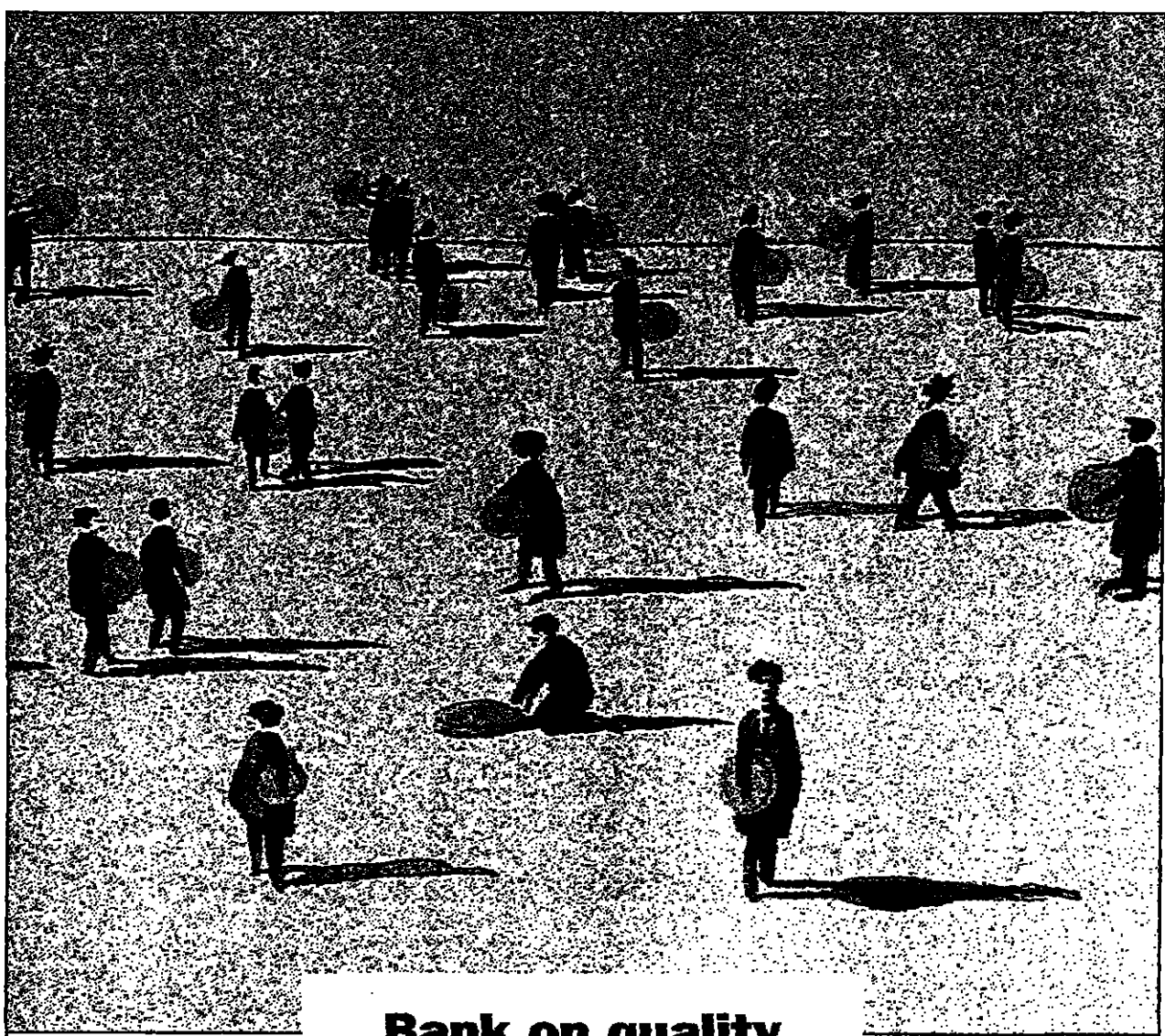
■ Limitations of granting mortgages denominated in foreign exchange (which constitute an important protection for lenders in today's inflationary environment).

■ The limited opportunities for cross-examining witnesses in court - the system is run by judges, rather than adversarial.

However, except over matters of inheritance, Turks are generally less litigious than people in the US or even Europe. "Turks believe there are risks in life and business, and do not rush to blame others," comments Mr Bağöz.

Here, an important factor is the limited comfort many people expect from the legal process. As in many countries, procedures are costly and protracted, with hearings usually held at three-month intervals, and addressing, step by step, the issues involved, as Coca-Cola recently found to its cost when it sought to cancel a bottling agreement.

Turkey has acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, delays often occur in cross-border cases, particularly when proceedings are required against a high-profile Turkish national. The administrators of the UK company, Polly Peck, have found particular problems in exercising the rights given to them by British courts to act on behalf of the company's shareholders. Lawyers acting for the fugitive Aslı Nadir have argued that such rights would not have been given under Turkish bankruptcy law.



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Istanbul: signposts for the visitor

Look for discount at the new 5-stars

It may seem a perverse complaint, but older residents of Istanbul moan not at the proliferation of English in hotel and restaurant hoardings, but at the fact that foreign words are now spelled correctly.

A disappearing pleasure of Istanbul life is figuring out the names of establishments from a French transliterated into Turkish. Time was, it was *korniflo* (read "comme il faut") to take tea and pastries in *Marikiz* (read "Marquise") before spending a night on the town at the *Fokhterjer* (no prizes).

Nowadays, Istanbul sports any number of orthographically correct international chains, from McDonalds to the Mervinick Hotel, designed to lure the international traveller.

There is some good in all this. The danger of a city with Istanbul's history and skyline being turned into the proverbial airport lounge remains remote. The new wave of 5-star hotels and an immediate glut of empty beds means that the executive traveller at least can hold out for a competitive corporate discount.

Location, too, is relatively important in a city where the traffic is designed to ensure you are least 20 minutes late for an appointment. A new Holiday Inn near the Ataköy Marina is not on top of the airport, but near enough for an early morning flight. The Mervinick is useful for anyone who needs to be near the new business district in Maslak on the upper road to the Bosphorus. The Hotel Merit Antique is in the historic city. Within the last five years, the Swiss Hotel (best health club), the Ciran Palace (best Bosphorus views), the Conrad and the Hyatt (tennis court and good summer pool) have opened up in the more traditional commercial centre.

The other advantage of the grand hotel is that it provides an acceptable place to entertain. However anxious you may be for an authentic Turk-

ish experience, your opposite number would almost certainly prefer to be taken to the new Italian restaurant at the Hyatt or the Japanese restaurant at the Swiss. The dining-room of the Divan Hotel is still rated for Turkish cuisine. If you must see a belly dancer, then the Show Orientale at the Conrad's Manzara is as good a place as any.

Istanbul is desperately short of the good small hotel. However, with a little bit of nerve you can actually stay somewhere more exotic and still catch your flight home. Few businessmen frequent the Hidir Kasrı (built as the Egyptian Khali's summer palace) in Üsküdar on the Asian side of the city. It is, however, very near the exit of the second Bosphorus bridge. This is in turn makes it convenient both for the TEM peripheral highway to the airport and the industrial suburbs on the Ankara highway. The building itself is a model of art nouveau, and is set in a remote garden over the Bosphorus. One day, the hotel's handsome dining-room will get the chef it deserves and be declared the best small hotel, not exactly in Europe, but just outside.

Another useful alternative is the Kariye Hotel, on the outskirts of the historic city. This gives it a straightish run to the airport without traversing the city traffic. It is a good base for someone who has a couple of hours to set aside for slightly more adventurous sight seeing. It is next door to St Saviour in Chora, a museum of wonderful Byzantine frescoes and mosaics, as well as a short walk from the highly distinctive Mihri-

mah mosque - built in the 16th century by the architect Sinan for the daughter of Süleyman the Magnificent. Also nearby are the Theodosian city walls, including the one section that has not yet been destroyed by the current programme of restoration.

The Green House (Yeşil Konak) is useful for first-time visitors who want to stay in the shadow of the Blue Mosque. It is run by the Turkish Touring Club, which has a policy of converting historical properties like the nearby Aya Sofia Pensions. There are now several private hotels in the same mould. The Ibrahim

Pasha Hotel, on the Hippodrome Square, has small rooms, but a pleasant family-like atmosphere.

If you've seen the principal sights, then take the walk down past the classical Sokulu Mehmet Pasha Mosque to the 6th century Church of St Sergius and Bachus (also called the "small" Aya Sofia Mosque). Alternatively, stroll on along the Golden Horn from the wonderfully tiled Eastern Pasha Mosque to the Spice Market to pick up pistachios (even reasonably priced caviar) to take home.

A final travel up-date. The Turkish foreign ministry has decided to average itself on all those countries that impose visas for Turkish nationals. Until recently, British people had to queue for a visa before joining the line to get their passport stamp. Now they will be joined by Americans and most Europeans as well.

Andrew Finkel

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IN BRIEF

BCH tumbles 38% in first nine months

Pre-tax profits at Banco Central Hispano (BCH), the Spanish financial group, tumbled 37.6 per cent in the first nine months as a result of lower income from disposals and an increase in loan-loss provisions. Page 18

Cathay redesigns its image

Cathay Pacific, the Hong Kong-based carrier, this week unveiled the first of its new long-range Airbus A340s sporting a new livery. The redesign is meant to shift the airline's image from that of a British to an Asian airline. Page 21

Komatsu gains with public works projects

Komatsu, the Japanese maker of construction equipment, posted a 5 per cent increase in non-consolidated recurring profits for the first six months of fiscal year 1994-95, helped by strong demand from domestic public works projects. Page 21

YPF earnings advance 14%

Higher oil and gas prices helped YPF, Argentina's privatised oil group, increase net profits 14 per cent in the third quarter. Page 20

Microsoft in TV software project

Microsoft, the world's largest computer software company, aims to establish itself as the leading software supplier for interactive broadband networks that will provide interactive television and home PC services. Page 20

Aetna credit rating cut again

Aetna, the US insurer, suffered another cut in its credit rating this week, the latest in a rash of downgrades that has hit the US property/casualty insurance industry in the wake of growing concerns over pollution and asbestos liabilities. Page 20

Loan loss decline lifts SE-Banken

A big drop in loan losses enabled Skandinaviska Enskilda Banken to compensate for a weaker underlying performance in the first nine months. Page 15

BET rises with better margins

BET, the business services group, reported a 25 per cent increase in pre-tax profits for the six months to October 1, and said it was seeing signs of improvement in its profit margins. Page 23

Zeneca seeks US healthcare links

Zeneca, the UK drugs company, is considering forming joint ventures with US healthcare suppliers as an alternative to the multi-billion dollar acquisitions made by rivals such as SmithKline Beecham. Page 24

BS attacks continental subsidies

British Steel has said that it is being put off investing in the UK and the rest of Europe by the subsidies allowed to competitors on the continent. Page 24

B&E cagey about further bids

British Aerospace yesterday refused to rule out making a revised offer for VSEL, the nuclear submarine-maker. Mr Bob Bauman, chairman, told BAE shareholders that although it expected GEC's rival £253m (£940m) offer to be blocked on competition grounds, BAE reserved the right to increase its own bid. Page 23

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Chief price changes yesterday

FRANKFURT (DM)			PARIS (FF)		
Alcoa	928	+ 29	Alcoa	630	+ 25
Amoco	855	+ 19	Amoco	788	+ 17
Anglo	242.2	- 8.5	Anglo	2520	+ 130
Amstrad	469	- 24.5	Amstrad	710	- 15
B&E	454	- 7.5	B&E	530	- 17
BCH	414	+ 1	BCH	540	+ 20
BCE	308	+ 1	BCE	700	+ 23
BCEH	83	+ 14	BCEH	805	+ 21
BCEH	834	+ 14	BCEH	850	+ 25
BCEH	354	+ 1	BCEH	880	+ 20
BCEH	594	+ 64	BCEH	891	+ 38

NEW YORK (US)

Alcoa	414	+ 1	Alcoa	540	+ 20
Amoco	308	+ 1	Amoco	700	+ 23
Anglo	83	+ 14	Anglo	805	+ 21
Amstrad	834	+ 14	Amstrad	850	+ 25
B&E	354	+ 1	B&E	880	+ 20
BCH	594	+ 64	BCH	891	+ 38

LONDON (Pence)

Alcoa	361	+ 13	Alcoa	1674	+ 79
Amoco	225	+ 17	Amoco	225	+ 8
Anglo	18	+ 3	Anglo	247	+ 8
Amstrad	228	+ 8	Amstrad	40	+ 4
B&E	122	+ 13	B&E	774	+ 254
BCH	350	+ 43	BCH	271	+ 9
BCE	377	+ 13	BCE	436	+ 11
BCEH	411	+ 12	BCEH	272	+ 17
BCEH	208	+ 8	BCEH	240	+ 11

Two deals shake Italy's banks

By Robert Graham in Rome

The shape of Italian banking altered sharply yesterday following two moves which will tighten ownership of the industry in the private sector.

Following days of speculation within the industry, Ambroveneto is to be taken over by Banca Commerciale Italiana (Comit) to create the country's second-largest banking group while Credito Romagnolo (Rolo), the Bologna-based bank, plans to merge with the Cassa di Risparmio di Bologna (Caer) the regional savings institution.

Rolo's merger plan is an attempt to fight off a hostile bid by the recently privatised Credito Italiano.

The Comit takeover of Ambroveneto has been market gossip for several days; but the Rolo-Caer merger came as a surprise. It would create Italy's 10th largest bank and comes less than a month after the two had abandoned talks on a smaller-scale

Takeover and merger proposals could tighten banking ownership

merger. Comit said it wanted to purchase 51 per cent of Ambroveneto but would aim initially for 29 per cent of the stock held by the core of controlling shareholders. It offered 1,700 per share for the 144.4m shares among these shareholders.

The defensive move by Rolo, controlled by a core of shareholders led by Mr Carlo De Benedetti, the Olivetti chairman, will have to overcome some complex legal considerations. These centred upon whether a merger could occur while a takeover bid was in progress.

The formal takeover by Credito Italiano cannot be launched until the prospectus has been approved by Consob, the stock exchange watchdog and this is unlikely to be complete until November 15. This could mean

that the first extraordinary meeting of Rolo shareholders will hear not the takeover offer but the merger.

The L2,010bn (£1.3bn) Credito bid for 48.2 per cent of Rolo's stock valuing each share at L19,000 was launched last Wednesday, and was the largest in Italy since new takeover rules were introduced in 1992. It followed three weeks of heavy trading in Rolo shares which rose in price by more than 30 per cent.

Rolo's merger decision comes after the appointment of foreign advisors. Goldman Sachs and Morgan Stanley to assess the takeover. Rolo said the merger would be on the basis of L31 of its nominal L10,000 shares for every nominal L10,000 Caer share.

Rolo has a market capitalisation of L4,885bn. This is a pre-

mium of some L3,000 per share on that offered by Comit and applies to all the shares. Caer was valued at L2,397bn.

Caer is a holding company with 76.4 per cent of the Cassa di Risparmio di Bologna (Carisbo), the savings bank. Caer in turn is controlled, like most savings banks, by a foundation which has 93 per cent of the stock. If the merger were to go through, the foundation would possess 30 per cent of the new group, probably to be called Rolo-Cassa.

The two have discussed a limited merger for the past year. The deal collapsed partly because it was too narrow in scope and applied only to a share-swap with Carisbo. Faced with the threat of being gobbled up by Milan-based Credito, they appear to have quickly overcome these reservations and broadened the scope of the original merger.

Rolo called extraordinary shareholders meetings on December 19 and 20 to approve the defensive deal.

BAT rises 21% on tobacco profits

By Roderick Orm, Consumer Industries Editor

A surge in tobacco profits in the US and recovery in Brazil helped BAT Industries overcome weakness in its general insurance business to report a 21 per cent increase in third-quarter pre-tax profits from £455m to £551m (£970m).

The stronger than forecast result pushed profits for the nine months ended September to £1,505m, up 10 per cent from a year earlier. "There should be a worthwhile increase in our pre-tax profits for the year, enabling us to maintain our progressive dividend policy," Sir Patrick Sheehy, chairman, said.

BAT remained hopeful that a New York

court would overturn attempts by the Federal Trade Commission to block its \$1bn takeover of American Tobacco. The FTC will argue in the case beginning in New York on December 5 that the deal would reduce competition.

Tobacco trading profits for the nine months rose 13 per cent to £320m, excluding a £135m extraordinary gain a year earlier. Cigarette volumes rose by 5 per cent.

In the US, third-quarter profits at its Brown & Williamson subsidiary nearly trebled to £111m and doubled in the nine months to £328m. US profits were depressed last year by Philip Morris' savage price cutting on "Marlboro Friday".

Financial services contributed £674m to group trading profits, up 3 per cent from a

year earlier. Eagle Star's profits fell £13m to £104m because of a sharp drop in investment returns to 59m. Overseas and domestic mortgage losses offset a £47m underwriting profit from UK personal lines. Worldwide premiums from general and life insurance were higher.

Farmers, BAT's US insurer, showed a marginal increase in profits to £391m with its life business improving in the quarter. BAT said Farmers claims from last year's San Francisco earthquake are expected to exceed earlier estimates of £1,500m.

A 16 per cent increase in nine-months tax to £460m and an increase in minority interests to £53m from £71m left earnings per share ahead 6 per cent at 30.8p. Lex, Page 16; BAT warns of challenge, Page 9

Kenneth Gooding looks back on a year of price rebounds

Funds fuel the fashion for metal

This week last year base metal prices were at an all-time low. Now prices have rebounded with aluminium and copper, the two most heavily-traded metals, - up by more than 70 per cent.

Analysts suggest that prices have run well ahead of what can be justified by fundamental factors such as the balance of supply and demand. Stocks remain high, twice the normal level in the case of aluminium.

But an important new element is fuelling price rises: the activity of banks and investment funds.

The funds are estimated to have put \$18m into metals so far this year. Meanwhile, the banks probably control 75 per cent of the London Metal Exchange stocks - traders say that as much as 85 per cent of the LME's aluminium stock is controlled by four or five banks.

Consumers are complaining, particularly the Japanese, the biggest users of metals markets. Mr Kenichi Watanabe, chairman of the Japan Aluminium Federation, said he had little faith in a market, such as the LME, which could be influenced by speculators.

Producers, many of whom were virtually suicidal a year ago, do not wholeheartedly welcome the new element in the metals markets either. High prices encourage substitution of other materials for metals and volatile prices frighten off potential metals users. Also, producers are likely to use the futures markets to lock in artificially high prices either to fund further development or to bolster flagging operations, moves that might boost future supply.

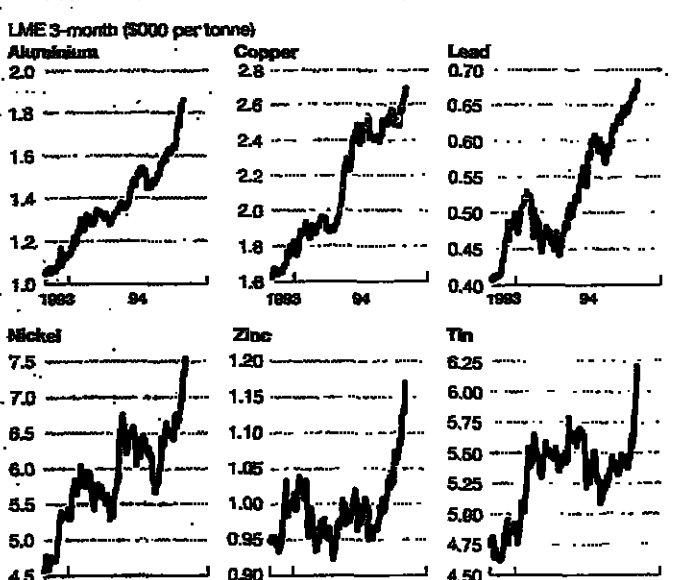
There is general concern among metal markets users about what happens next.

Many share the view of Mr Robin Adams, president of the Resource Strategies consultancy, who says the funds' involvement is "a fashion craze" and "financial fashions like real estate investment trusts, loans to Third World dictators and junk bonds, always end in tears".

Nevertheless, there are apparently good reasons for the banks and funds' involvement. Banks, for example, took advantage of cheap money to buy up stocks of physical metal.

Mr Chris Harris of Barclays Metals describes how the system worked: typically a bank borrowed one-year money at a 5 per cent and used it to buy aluminium at \$1,200 a tonne. The bank negotiated special terms with a warehouse to store the metal for one year at \$52 a tonne. It sold the metal forward at \$1,315 a

Metals react to new element



tonne to gain a \$3 a tonne profit. The volumes involved tended to be at least 250,000 tonnes per bank and two big players are believed to have tied up 800,000 tonnes each.

Investment managers, meanwhile, say interest in metals has boomed because clients wanted to reduce their portfolio risk through asset diversification and hedge against unexpected inflation. Commodities are being touted as a new asset class to compete with bonds, equities and property.

Mr Robert Davies, mining analyst at London stockbrokers, Smith New Court, "Interest, dividend and rental income from the three traditional asset classes give them a long-term value that is totally lacking in commodities. Base metals are mined to be consumed."

He suggests the main reason for the funds' dive into metals was that "in an effort to achieve better returns than were possible on bonds and equities, some funds chased esoteric investments, including commodities".

Whatever the reason for their involvement, the funds have certainly had an impact on metals prices. During the last cyclical recovery, between 1984 and 1987, metal stocks fell for two years before prices started rising appreciably. This time prices started moving upwards six months before stocks began to fall.

Mr Nick Mason, analyst at the

CRU International consultancy, says metals prices are now behaving more like financial instruments and anticipating or leading actual fundamental developments. "The important question for future metals prices is to what extent will the market anticipate the next major shift in the fundamentals. It would not be surprising if prices begin to reflect this expectation as early as the beginning of next year."

The consensus is that the funds will unwind their positions in the metals markets gradually so as to avoid any self-inflicted damage to their profits. The hope is that this will take place coincidentally with a surge in metals demand in line with a global economic recovery.

Some suggest the funds' timing so far has been perfect and there are solid reasons underlying recent price rises. Mr Wiktor Bielski, metals analyst at Bain & Co, a Deutsche Bank subsidiary, points out that demand for aluminium, copper and nickel rose 7 per cent in the first half of 1994 against the same period last year, while lead and zinc demand was up by 4 per cent. Meanwhile, supplies have fallen along with exports from the former eastern bloc - apart from those of aluminium. Some producers have had to buy metal on the LME to cover commitments.

Ms Rhona O'Connell at T. Hoare & Co, London stockbrokers, admits there is always the possibility that the funds might all sell at once if the herd instinct takes over. However, "the diversity of fund participation and its raison d'être is such that the funds will not kill the markets that they have helped to rejuvenate. The downside, though, is that the acceleration of supply caused by artificially high prices may also mean that the troughs will be at lower price levels than would otherwise have been the case. On this basis, one could argue that the funds have not actually helped the metals' cause at all."

Palladium booms. Page 26

Telekom wants UK, US banks

By Michael Lindemann in Bonn and Andrew Fisher in Frankfurt

The partial privatisation of Deutsche Telekom, expected to raise some DM15bn (£10bn) early in 1995, is likely to involve both US and UK banks in key roles because of the importance of both countries' stock markets, said Mr Helmut Rieke, the chief executive.

He did not say which investment bank the state-owned telecommunications company preferred for the main international role of global co-ordinator.

Goldman Sachs, the US investment bank, is among the most likely candidates to head the international placement, with Merrill Lynch, Salomon Brothers and Morgan Stanley also in the running, along with S.G. War-

burg and Kleinwort Benson from the UK.

Deutsche Bank and Dresdner Bank are expected to be named the overall managers of the privatisation issue, which is likely to be split into regional consortiums to cover Germany, the rest of Europe, North America and the rest of the world.

Mr Rieke said it was important to give banks from the countries containing the world's most important stock exchanges a decisive say in the share placement. "That naturally applies to the US just as much as it does for Britain," he said. "I can't imagine that there would be any political considerations which would exclude a strong American partner. There is no disagreement between management and the owners [the govern-

ment] in this matter."

A final decision is expected shortly, with banks standing to earn fees of some DM450m from the placement.

However, Mr Rieke said a decision would not be made this week. "We are under a certain amount of time pressure but we will need to evaluate the matter more carefully than that."

Deutsche Telekom invited 22 of the world's leading investment banks to a "beauty contest" in Bonn where they presented their respective bids to the company and the finance and postal ministries.

"They are all good," Mr Rieke said. "We now have to decide what their particular strengths are, what connections they might have to companies which we regard as our competitors."

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October 1994

INTERNATIONAL COMPANIES AND FINANCE

BCH tumbles 38% at nine months

By Tom Burns in Madrid

Pre-tax profits at Banco Central Hispano (BCH), the Spanish financial group, tumbled 37.6 per cent to Ptas45.3bn (\$363m) at the nine-month stage, as a result of lower income from disposals and an increase in loan-loss provisions.

In contrast, BCH's core banking business improved sharply over the period as the group raised operating profit 17.5 per cent to Ptas104.9bn.

Net consolidated profits fell 25.3 per cent to Ptas32.3bn, by far the lowest among the leading domestic banks. This raises the prospect that BCH could be forced to reduce its dividend

next year in order to strengthen its balance sheet.

The bank's future profitability was nevertheless underlined by an improved net interest income, which rose 4.1 per cent to Ptas235.3bn over the nine months. This was in spite of the drop in interest rates and the resulting squeeze on margins.

Fees from commissions rose 6.9 per cent to Ptas4.4bn and total net revenue advanced 5.5 per cent to Ptas308.2bn.

The brighter outlook for BCH's pure banking operations was clouded by the continuing need to raise the coverage for its damaged loan portfolio.

This drain on resources was aggravated over the nine

months by lower revenues from its treasury department and a fall in gains from disposals, which brought extraordinary income over the period down 35.3 per cent to Ptas40.7bn.

BCH has put aside Ptas106.6bn for provisions between January and September, 33.7 per cent more than last year.

This addresses the concerns of rating agencies, which have raised questions about the quality of BCH's assets and downgraded the banking group.

At the end of September BCH's coverage stood at 76.6 per cent, without taking mortgage-linked guarantees into

account. This figure is comparable to that of rival domestic banks and up from its 69 per cent coverage in June.

BCH's non-performing loans represented 7 per cent of the group's total lending at the end of September - above the average for the sector, but 1 per cent down on the end of last year.

BCH realised Ptas30.3bn between January and September through the recovery of non-performing loans, 57.4 per cent up on the same period last year.

BCH's return on assets stood at 0.40 and its return on equity at 7.8 per cent, figures well below the average for the sector in Spain.

Decline in loan losses boosts SE-Banken

By Christopher Brown-Humes in Stockholm

A big drop in loan losses enabled Skandinaviska Enskilda Banken to compensate for a weaker underlying performance in the first nine months and lift profits to SKr2.87bn (\$400m) from SKr71m.

Sweden's leading commercial bank said the SKr2.8bn improvement included SKr789m in capital gains.

The main impact on the figures came from a 44 per cent cut in loan losses to SKr4.35bn.

Like other Swedish banks, SE-Banken has benefited from lower interest rates and economic recovery and put behind it the crisis that brought it large losses due to collapsing property values in 1992.

However, its result before loan losses was 7 per cent worse than a year ago at SKr7.23bn. Excluding this year's capital gains, the deterioration would have been 17 per cent.

The worse underlying performance reflected:

● A 10 per cent reduction in net interest income to SKr6.36bn, caused by a continued drop in lending volumes and narrower interest rate margins.

● A 12 per cent fall in commissions, fees and foreign exchange earnings to SKr4.37bn. This reflects lower activity in most financial markets.

● A 5 per cent rise in costs to SKr5.95bn.

Excluding capital gains, the group's third-quarter profit was SKr602m, compared with SKr755m in the second quarter and SKr730m in the first three months.

The bank said adjustments in the value of its investment portfolio were only taken into account at the year-end. It said the large rise in long-term interest rates this year meant the market value of its SKr82.4bn bond portfolio on September 30 was SKr963m lower than the acquisition value.

Akzo Nobel profit surges 35% on increased sales

By Ronald van de Krol in Amsterdam

Akzo Nobel, the Dutch chemicals group, said net profit before extraordinary items rose 34.7 per cent in the third quarter. This reflected increased sales volumes and reduced costs.

The sharp improvement was seen in most divisions, with even the weak fibres sector producing a small profit after losses a year earlier.

Net profit totalled F1322m (\$192m) before extraordinary items, compared with F1239m a year earlier. Profits after extraordinary items jumped 75 per cent because the 1993 result was weighed down by F155m in charges related to spinning off loss-making activities into joint ventures. There were no extraordinary items in the 1994 quarter.

Mr Syb Bergsma, finance director, said the result confirmed expectations that a second-half results in 1994

would be above those in 1993. The company held its interim dividend at F1.50 a share.

Economic recovery in Europe, coupled with continued good business conditions in the US, lifted sales volumes 5 per cent. Average selling prices rose 2 per cent, but Akzo Nobel faced a similar rate of increase in its own raw material costs.

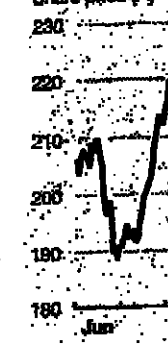
Turnover rose 4.3 per cent to F15.42bn, and would have been higher but for the dollar's decline.

Operating profit rose by F129m to F1487m, producing a margin of 9.0 per cent against 6.9 per cent. "All groups contributed to this gain in operating income, both in absolute terms and as a percentage of sales," Mr Bergsma said.

Chemicals, coatings and pharmaceuticals posted increases in operating profit, while fibres produced a small operating profit of F1m, compared with a loss of F132m a year earlier.

Akzo Nobel

Share price (F)



Source: FT Graphix

The company, created in early 1994 through the acquisition of Sweden's Nobel Industries by Akzo of the Netherlands, was already reaping some synergy benefits, such as personnel cutbacks in Stockholm. But Bergsma said the bulk of the savings would come in 1995 and 1996, rather than mainly in 1994, as originally expected.

Christiania Bank posts sharp improvement

By Karen Fossali in Oslo

Christiania Bank, Norway's second-largest commercial bank, yesterday reported a sharp improvement in its nine-month results. The bank benefited from the continued upturn in Norway's economy, which has improved borrowers' ability to service loans.

Christiania said nine-month pre-tax profits nearly doubled to NKr1.12bn (\$171m) from NKr628m in the same period last year, providing further evidence that Norwegian banks are emerging from a four-year crisis.

However, the group's operating profit, before loan losses, dropped NKr649m to NKr1.22bn.

Net interest income was unchanged at NKr2.33bn but non-interest income fell by NKr638m to NKr1.13bn due to reduced securities and foreign exchange gains.

Christiania said that a low level of interest rate exposure in the securities portfolio, helped limit bond losses in the third quarter to NKr10m.

In the nine-month period, securities gains fell sharply to NKr94m from NKr561m, while foreign exchange gains and

other non-interest income dropped NKr101m to NKr145m.

Nevertheless, the bank sharply reduced nine-month provisions for losses on loans and guarantees, to NKr100m from NKr1.24bn last year.

Included in this year's figure is net reversals of NKr284m covering previous loss provisions.

Christiania said credit losses to the international fisheries industry were the most troubled sector of its loan portfolio.

In the third quarter the bank made provisions of NKr58m to cover fisheries loan losses, which for the nine-month period reached NKr394m. But

combined gross non-performing and doubtful loans were reduced by 27 per cent to NKr11bn, while net non-performing loans were cut by 37 per cent to NKr3.6bn.

While expressing satisfaction with the results, Mr Borger Lenth, group managing director, warned there was still room for improvement.

The board may consider paying a dividend for 1994, but this is understood to be conditional on the bank's core capital reaching 6 per cent of risk-weighted assets at end-December, and on continued improvement in performance.

Sainsbury warns on planning restrictions

By Neil Buckley in London

J Sainsbury, the UK's largest grocery retailer, said yesterday that tougher government planning restrictions were starting to bite, and it expected to open only 12 new supermarkets next year, compared with plans for 20.

Speaking the day after the House of Commons environment committee called for tighter restrictions on out-of-town retail development, Mr David Sainsbury, chairman, reported a 6.5 per cent increase in interim pre-tax profits to £444.3m (\$702m) from £417.2m. Last year's figure was restated to take account of new depreciation policies.

He said the group had won only one out of nine planning appeals this year, and spent £182m in the first half on new stores, compared with £309m in the same period last year.

"The difficulty of obtaining planning consent on appeal has become extreme," he said. "That has also led to greater difficulty in negotiating consent with local authorities. We do not foresee a reversal of this situation in the near future."

Spending on new UK supermarkets in the full year is expected to be little more than £200m. Twenty stores will be built this year, but the number will fall to 12 next year.

Sainsbury will spend more than £100m on refurbishing

and extending older stores, and £150m on developing other divisions than its core UK supermarket chain. Both these activities will be given higher priority.

"We would prefer to invest in other opportunities rather than acquire sub-standard sites [for supermarkets] with lower returns," Mr Sainsbury said.

Sainsbury last month acquired 50 per cent of voting shares in Giant Food, the Washington DC-based supermarket group, and expects Giant's profits to outweigh financing costs this year. Its existing US business, Shaw's, increased operating profits 44 per cent to \$36.3m.

With a strong performance

from the DIY chain Homebase - where profits grew 34 per cent - the other divisions increased operating profits 26 per cent to £58.1m. That outpaced the 7.7 per cent rise in UK supermarket profits to £405m.

Total UK supermarket sales increased 7.7 per cent, of which 7.3 points came from new space. Like-for-like sales volumes, excluding new space, increased 1 per cent, with price deflation of 0.6 per cent.

The fall in prices was partly a result of Sainsbury's Essentials price-cutting campaign, which started a year ago, and reduced gross margins by 0.2 percentage points.

Lex, Page 16

SBC forecasts drop in income

By Ian Rodger in Zurich

Swiss Bank Corporation, Switzerland's third largest bank, said annual consolidated net income for 1994 would be "clearly below" last year's record SFr1.37bn (\$1.1bn).

SBC said operating income after nine months failed to match 1993's performance. The bank was echoing recent statements from Switzerland's two other large banks.

No figures were given, but the bank blamed the uncertainty in financial markets for most of the decline.

The trend of trading income was the same as in the first half of the year, when it tumbled 63 per cent. Income from securities trading picked up in the third quarter, but revenues from foreign exchange were down.

Net commission income, up 11 per cent in the first half, was down in the third quarter because of a fall in brokerage and syndication and placement fees.

Net interest income was higher than in the first and second quarters of this year due to a more favourable fund-

ing structure and falling interest provisions, but remained lower than in the third quarter of last year.

There was a further drop in bad loan provisions in the third quarter after the 63 per cent cut in the first half.

Total assets of the parent company at September 30 stood at SFr195.5bn, SFr13.3bn higher than at the end of last year. Growth in domestic lending and interbank business offset the adverse effect of the lower US dollar, and the acquisition of a Swiss regional bank added SFr4.7bn.

Roussel Uclaf up 9.2% at FF635m

By Andrew Jack in Paris

Roussel Uclaf, one of France's largest chemicals companies, yesterday reported net income up 9.2 per cent at FF635m (\$123.75m) for the first nine months of the year.

The company said comparable net income, excluding exceptional items, was

FFr715m, a 52 per cent rise. This was after stripping out restructuring costs and capital gains from the transfer of its crop protection and environmental health activities.

The divisions will be transferred to part of the Hoechst group, the German chemicals company which owns 64 per cent of Roussel Uclaf's shares,

at the end of this month. Sales for the period were up 13.8 per cent to FF13.1bn, or up 2.3 per cent in comparable terms.

Canal Plus, the French media and pay-TV company, reported revenues up 8.5 per cent to FF6.85bn for the first nine months of the year, compared with the 1993 period.

All of these securities have been sold. This announcement appears as a matter of record only. These securities have not been registered under the Securities Act of 1933 and may not be publicly offered or sold in the United States or to or for the account of a U.S. Person except pursuant to an exemption from the registration requirements thereof.

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November 1994

REPUBLIC NEW YORK CORPORATION
SAFRA REPUBLIC HOLDINGS S.A.

Consolidated Statements of Condition and Summaries of Results

These statements and summaries represent the consolidated accounts of Republic New York Corporation and its wholly owned subsidiaries and of Safra Republic Holdings S.A. and its wholly owned subsidiaries. Republic New York Corporation owns 48.8% of Safra Republic Holdings S.A., which is accounted for by the equity method.

	REPUBLIC NEW YORK CORPORATION		SAFRA REPUBLIC HOLDINGS S.A.	
	September 30, 1994	September 30, 1993	September 30, 1994	September 30, 1993
(In thousands of US\$ except per share data)				
Assets				
Cash and due from banks	\$ 638,380	\$ 557,003	\$ 60,731	\$ 52,123
Interest bearing deposits with banks	9,530,875	6,130,430	4,754,683	3,376,354
Precious metals	1,577,081	745,681	-	-
Investment securities	11,777,082	13,875,719	5,881,392	5,650,486
Trading account assets	3,062,180	1,225,570	49,617	59,930
Federal funds sold and securities purchased under resale agreements	838,621	1,625,694	-	-
Loans, net of unearned income	9,383,733	9,031,447	1,287,237	1,183,678
Allowance for possible loan losses	(319,578)	(281,193)	(122,798)	(96,981)
Loans (net)	9,064,155	8,750,254	1,164,439	1,086,697
Other assets	4,721,359	5,051,694	457,127	335,398
Total assets	\$41,209,733	\$37,962,045	\$12,367,989	\$10,560,988
Liabilities				
Total deposits	\$22,226,145	\$22,379,887	\$ 9,140,280	\$ 7,153,245
Trading account liabilities	2,763,022	225,308	-	-
Short term borrowings	4,886,868	2,886,001	974,332	1,356,775
Other liabilities	4,069,514	5,267,507	377,331	229,101
Long term debt	2,588,991	2,643,263	648,600	650,000
Subordinated long-term debt and perpetual capital notes	2,405,843	2,130,635	-	-
Shareholders' Equity				
Cumulative preferred stock	672,500	556,425	-	-
Common stock and surplus, net of treasury shares	704,877	719,254	903,560	902,204
Retained earnings	1,401,255	1,153,765	407,316	269,663
Net unrealized depreciation on securities available for sale, net of taxes	(109,282)	-	(83,430)	-
Total shareholders' equity	2,669,350	2,429,444	1,227,446	1,171,867
Total liabilities and shareholders' equity	\$41,209,733	\$37,962,045	\$12,367,989	\$10,560,988
Book value per share	\$ 37.79	\$ 35.56	\$ 69.21	\$ 66.19
Client portfolio assets in custody	\$ 37.79	\$ 35.56	\$ 5,604,254	\$ 5,014,627
Net income, for the nine months ended	\$ 250,624	\$ 221,278	\$ 119,771	\$ 85,029
Net income per common share (primary)	\$ 4.28	\$ 3.82	\$ 6.75	\$ 4.80
Average common shares outstanding (primary)	52,738	52,390	17,739	17,701

Risk-Based Capital Ratios

As of September 30, 1994, Republic New York Corporation's risk-based core capital ratio was 16.45% (estimated) and total qualifying capital ratio was 28.00% (estimated). The ratios include the assets, risk-weighted in accordance with the requirements of the Federal Reserve Board specifically applied to Republic New York Corporation on a fully consolidated basis and capital of Safra Republic Holdings S.A. Total consolidated assets exceeded US\$ 50 billion and total consolidated capital, including minority interest and subordinated debt, exceeded US\$ 5 billion.

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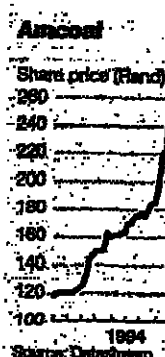
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NEWS DIGEST

Stronger exports lift Amcoal 33% after six months



An improved export performance helped Amcoal, the coal company in South Africa's Anglo American group, to report a 33 per cent increase in attributable earnings to R182.2m (US\$46.3m) for the six months to September, up from R121.8m last year, writes Mark Suzman in Johannesburg.

Although total sales of coal and coke dropped slightly to 22.5m tonnes from 22.85m tonnes due to lower domestic market sales to Eskom, the state electricity utility, turnover rose 12.3 per cent to R1.1bn from R944m. The dividend has been increased to 180 cents from 150 cents.

However, a rise in exports on the strength of the weaker rand/dollar exchange rate, combined with successful containment of working costs, led to higher margins, and operating profit increased 33 per cent to R237.4m from R178.6m.

Mr David Rankin, Amcoal chairman, said he expected earnings for the year to show a similar improvement to the first half due to improved prices. However, he warned that two derailments on the railway to Richards Bay, the port from which exports are shipped, have delayed certain shipments and will dent export earnings for the second half.

JAL, American Airlines in frequent-flyer accord

Japan Airlines (JAL) has concluded an agreement with American Airlines linking the two companies' frequent-flyer programmes, writes Gerard Baker in Tokyo.

From January 1 next year, members of JAL's four regionally-based frequent-flyer programmes and members of American's Advantage Travel Awards scheme will be able to participate in each other's programmes. The agreement is the latest in a series of tie-ups that link the leading airlines in Asia, North America and Europe.

American Airlines, AMR Corporation's largest subsidiary, serves 176 cities throughout the US, the Caribbean, Canada, Europe and Latin America, as well as Tokyo. Japan Airlines serves 62 cities in 25 countries worldwide.

First National Bank posts record profits

First National Bank, the South African banking group, performed strongly in the year ended September to raise pre-tax income to a record R1.1bn, up 20.9 per cent from R906.3m previously, writes Mark Suzman.

Net interest income rose 13.7 per cent to R2.58bn from R2.28bn, while the charge for bad and doubtful debts edged up by only 2.2 per cent to R361.3m from R343.6m. Advances increased by 18.6 per cent to R48.26bn from R40.7bn, while total assets, which include those of First Bowring and Associates for the first time, rose 15.3 per cent to R61.76bn, up from R53.5bn.

Group capitalisation is at 8.1 per cent, down from 10 per cent last year but still well within the 8 per cent limit required by the Banks Act by January 1995.

Mr Barry Swart, managing director, said the results reflected market gains in both home loans and credit instalment across all divisions. He said he was optimistic the good results would continue into the next year in spite of pressure on gross margins from higher interest rates.

Mr Swart also voiced his support for the recent R2bn agreement between leading financial groups and the government to open up housing loans to the lower end of the market. "It will work to the advantage of both the government and ourselves and we are very happy to take a reasonable commercial risk on the scheme."

Seagram opens S Africa marketing operation

Seagram, the Canadian drinks company, has launched Seagram South Africa, a wholly-owned sales and marketing operation to service the southern African region, writes Mark Suzman.

At the new company's launch in Cape Town yesterday, Mr Jake Scott, vice-president of Seagram for Europe and Africa, said the company was committed to building up local employment and would sponsor a social responsibility programme aimed at South African youth.

MEPC Australia awarded A3 rating

Moody's, the US credit rating agency, yesterday assigned an A3 long-term debt rating to MEPC Australia, part of the UK property group, and a prime-2 rating to its A\$500m (US\$370.3m) commercial paper programme, writes Nikki Tait in Sydney. MEPC has announced plans to diversify its UK-dominated portfolio through greater investment in the Australian property market.

Commenting on the move, and associated rating, Moody's said it believed Australia to be "the most volatile of MEPC's areas of concentration" and viewed "additional exposure as incremental to the company's risk profile".

However, it added that such risk was "somewhat mitigated by the company's long and successful presence in this market".

Oerlikon-Bührle sees higher sales in 1994

Oerlikon-Bührle, the Swiss engineering company, expects 1994 group sales to be between Sfr3.6bn (US\$2.9m) and Sfr3.7bn, including the acquisition of Leybold of Germany. This compares with Sfr2.99bn in 1993, AP-DJ reports from Zurich.

Mr Hans Widmer, chairman and chief executive, said "the Leybold acquisition should boost sales this year".

Leybold specialises in vacuum technology, which is used to produce compact discs. Bührle has said it expects to post 1994 group net income of Sfr65m, excluding Leybold, up 3.5 per cent from Sfr62.8m.

Including the acquisition, however, Mr Widmer said he expected 1994 net income to be even higher, adding that Leybold expects to report net profit of about DM47m (US\$31.3m) this year.

BCE lifts Teleglobe stake

BCE, Canada's biggest telecommunications group, has bought 397,300 more shares of Teleglobe, Canada's overseas telecommunications company, to bring its total interest to 24.4 per cent, writes Robert Gibbons in Montreal.

US groups in Internet commerce agreement

By Louise Kehoe

Tandem Computers of the US has reached a preliminary agreement to collaborate with Open Market, a software company, in the emerging market for electronic commerce on the Internet, a global computer information network.

Tandem sees electronic commerce as a significant new market opportunity. Open Market, based in Cambridge, Massachusetts, has developed software that enables companies to establish and manage on-line shopping services.

Electronic commerce is expected to reduce substantially the paperwork involved in corporate purchasing - currently estimated at more than 2.7bn pages daily. It also offers new ways to reach mass markets of consumers.

The Internet has more than 25m users and is estimated to be growing at a rate of two to three million new users a month.

On-line shopping will generate about \$4.8bn a year by 1998, predicts Forrester Research, a US market research company.

Growth will be driven by the proliferation of home computers and by improvements in on-line product presentation, it says.

Also boosting growth is the expanding use of commercial on-line computer information and communications services such as Prodigy, America Online and CompuServe. At the end of 1993 these services had about 3.5m subscribers.

The number is expected to reach about 5.2m by the end of this year, according to market researchers.

Banks seek tighter loan covenants

Many US banks may have breathed a sigh of relief at the warning by Mr Walter Shipley, chairman and chief executive of Chemical Banking, that he is prepared to give up Chemical's leadership of the US syndicated loans market rather than accept looser terms for lending.

European banks will hope that this example becomes the latest development in syndicated lending to cross the Atlantic.

There were signs last year that the revival of syndicated lending - in which a loan to a large company is arranged by one or two lead banks, and an unlimited number of banks contribute to it - was bringing back to banks familiar dangers.

It has become reality this year, as European banks have followed those in the US by narrowing margins and slackening loan covenants. Many banks fear a repeat of the late 1980s, when the driving down of margins as banks competed for assets was followed by a wave of corporate collapses.

A form of lending that would scarcely have brought an adequate return on capital for banks, even if every loan had been paid back, became the latest of a series of collective blunders by the banking industry.

Yet, while banks have been groping for a floor to lending terms, developments such as the re-entry of smaller Japanese banks since April have made it elusive.

"One keeps hearing of bank credit committees saying they will not go below this or that line, but one rapidly hears of a deal that does so," says Mr Stanley Hurn, head of loan syndication at Midland Bank.

As banks in first the US and then Europe have re-built capital ratios to well above the

minimum levels set by the 1988 Basle accord, they have been seeking assets again. "There is an awful lot of money chasing very few borrowers, and the imbalance of supply and demand is driving prices down," says Mr Jonathan Macdonald, a vice-president of Union Bank of Switzerland.

European loan syndication. However, syndicated lending can be more profitable for banks than it immediately appears. One reason is that the cost of funds of large banks, such as the UK clearers, is not in practice Libor. Because of their size and strength, they can obtain money at about 10 basis points below Libor,

which makes their actual lending margins about one-third higher than their apparent ones. A second reason is that banks get fees for lending in addition to the margin. These range from underwriting fees for banks that syndicate and lead manage loans, to participation fees for smaller banks. Many larger banks try to arrange and lead manage as many loans as possible to obtain fees, and keep only a tiny proportion of those loans on their balance sheets.

A third reason is that banks still use lending as a means of attracting other business such as cash management and cheque clearing. All these factors have led to a big revival in the global syndicated loans market. There were \$795bn of loans in the global last year, compared with \$627bn in 1992, according to Euromoney Loanware. About \$497bn was lent in the first nine months of this year, and activity is expected to intensify.

This has led not only to margins tightening sharply, but banks have also been willing to lend for longer, locking themselves into low-return assets. Banks were reluctant to lend for more than

three years in the early 1980s, but facilities such as the recent 10-year, \$100m loan negotiated by 3i, the UK venture capital group, have become increasingly common. Furthermore, fees are coming under pressure. The standard commitment fee for undrawn facilities has fallen to 10 basis points or below.

Some bankers report that legal fees charged on standard loans by leading UK firms have been forced down to about \$10,000 from \$25,000 two years ago. They also fear that banks will start to wrap fees into the overall lending margin.

Potentially the most worrying development for banks, however, is the relaxation of loan covenants. These commonly include financial ratios such as interest cover, gearing and the minimum net worth of the borrower.

It is the willingness of some banks to accept deals with loose covenants - and some deals with none - that has particularly worried Mr Shipley.

Some bankers argue that covenants are not significant because European credit quality is improving, and covenants did not prevent the last wave of corporate defaults. Yet given the ability of a single corporate collapse to eliminate the slim return on assets in a bank's syndicated lending activities, others regard the protection of covenants as vital.

Mr Shipley's warning may be a first step to restoring equilibrium for other banks. But the protection of loan covenants will require senior directors of banks to back the judgment of internal credit committees against those of executives who market loans.

Without such tough measures, many bankers fear that history will repeat itself uncomfortably quickly.

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Anglo American Coal Corporation Limited

Reg. No. 0101459008

(Incorporated in the Republic of South Africa)

The above mentioned company's interim report has been issued today. Copies are available from the London Secretaries:

Anglo American Corporation of South Africa Limited, 19 Charterhouse Street, London EC1N 6QR.

3 November 1994

BONGRAIN

Improved consolidated sales

Bongrain generated consolidated sales of FF7.08bn for the first nine months of 1994, versus FF7.00bn for the same period of 1993, an improvement of 1.11%.

Measured on a comparable consolidation structure and with constant exchange rates, the increase is 3.01%. Excluding sales of excess milk and by-products, the rise is 4%; for the first six months, it was 3.9%.

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INTERNATIONAL COMPANIES AND FINANCE

YPF earnings advance 14% in third quarter

By David Pilling
in Buenos Aires

Higher oil and gas prices helped YPF, Argentina's privatised oil group, increase net profits 14 per cent in the third quarter to \$181m from \$159m in the same period of 1993.

However, operating profit fell slightly over the same period to \$223m in the quarter to September 30, from \$228m.

Exploration costs more than doubled to \$122m in the first nine months, part of the company's ambitious investment plans over the next 10 years.

Mr José Estenssoro, YPF president and chief executive, said the rise in net income was due to "higher crude oil production and prices, higher natural gas prices and lower asset taxes". However, increased depreciation and exploration spending kept operating income flat.

In the first nine months of this year, net revenue from sales slipped 1.3 per cent to \$2.99bn, partly as a result of "weather problems" in the second quarter, but in the third quarter revenue was up by 3.8 per cent to \$1.09bn.

YPF denied local press reports that it had made an oil discovery in Rincon de los Sauces, in Argentina's central Neuquen basin, but it did confirm that it was exploring the area.

Mr Christopher Eccleston, of brokers Interacciones said the results were "good at the bottom line" but that YPF was "losing position in some areas" with lower sales of gasoline, diesel and fuel oil. He also pointed out that bottom-line results were helped by taxes of only \$2m against \$14m in the same quarter of 1993.

Tenneco to offer more shares in Case unit

By Laurie Morse in Chicago

Tenneco, the diversified US industrial group, is to issue 15.6m more shares of its J.I. Case farm and construction equipment unit in a deal that will reduce Tenneco's holding in the company to less than 50 per cent.

The share sale, which follows an initial public offering of Case's shares last June, is expected to net Tenneco about \$320m, as well as \$150m in cash benefits related to taxes.

In the June offering, Tenneco sold 29 per cent of Case to the public at \$19 a share, raising more than \$380m. Case shares were \$20 at lunchtime on the New York Stock Exchange.

The offering puts Tenneco in a race to reinvest the proceeds from the Case sales in a way that will replace Case's contributions to earnings.

The second-largest farm equipment maker in the US, and the world's largest manufacturer and distributor of light and medium-sized construction machinery, Case had sales of nearly \$4bn last year.

During the fourth quarter, Case contributed \$73m, or almost 20 per cent, of Tenneco's \$363m operating income.

Microsoft in TV software project

By Louise Kehoe
in San Francisco

Microsoft, the world's largest computer software company, aims to establish itself as the leading software supplier for interactive broadband networks that will provide interactive television and home PC services.

The company yesterday announced an "end-to-end software solution" for interactive TV, including distributed operating system software for connecting television set-top boxes and personal computers with a wide variety of services, plus media server software for delivering video on demand and a set of interactive system applications.

The Microsoft software is to be tested in an interactive

TV trial being staged next year in Seattle, Washington, by Tele-Communications, the largest US cable-TV operator.

Microsoft yesterday announced agreements with other network operators including Deutsche Telekom, Telstra of Australia and US West Communications, a regional US telephone company, which will also test the Microsoft technology.

Previously, Rogers Cable Systems, Nippon Telegraph & Telephone and SBC Communications also announced plans to use the Microsoft technology.

Hewlett-Packard, the second largest US computer company, and NEC of Japan, are to develop set-top boxes that will be used to link TV sets to interactive serv-

ices using Microsoft software. They join General Instrument, the leading maker of cable-TV converter boxes, in supporting Microsoft technology.

NEC will also build "media servers" for video on demand services. Intel and Compaq Computer have previously announced their intention to build servers compatible with the Microsoft software.

Several systems integrators including Alcatel, Andersen Consulting, Lockheed Missiles & Space, NTT Data Communications Systems and Olivetti have committed to provide service and support for testing and global deployment of the Microsoft technology.

"Microsoft is pleased to be working with a broad range of telecommunications leaders as

we complete the design of our system; together we can build a basis for the evolving information society," said Mr Craig Mundie, vice-president of the advanced consumer technology division at Microsoft.

Microsoft said it would publish details of interfaces needed to make use of its software, and offer the development tools necessary for other developers to create services, applications and multimedia content for interactive TV.

"Our strategy is to develop a deployable system, where the engineering work is complete, and then test it at every increasing scale in order to get it to commercial operation," said Ms Laura Jennings, senior director of the advanced consumer technology division at Microsoft.

Digital unveils new products

By Alan Cane

Digital Equipment, the troubled US computer manufacturer, yesterday unveiled a new product and distribution strategy as part of its drive to return to growth and profitability.

It announced eight new workstations and midrange machines based on its world-leading "Alpha" technology, and discounts for dealers. Alpha microprocessors are reckoned to be the world's fastest and Digital has staked its future on their success. Mr Enrico Pesatori, head of Digital's computer systems divi-

sion, said yesterday that in the first quarter of the current year, Alpha sales increased by 138 per cent. Last year sales of Alpha technology amounted to \$1bn.

The computers announced yesterday are an attempt to combine the power of the fastest Alpha microprocessors with the economics of low cost personal computers; this will cut both purchase price and running costs. The new machines are priced between \$7,000 and \$15,000.

The new dealer discounts, coupled with improved terms and conditions of service, are an attempt to make Digital

products more attractive to dealers and other distributors, a group that Digital has neglected in the past. Now it will provide partners with marketing support to increase demand and broaden the market for Alpha products.

The company is already running a substantial advertising campaign to reassure customers and potential customers of its commitment to the computer business and this will be complemented by a rash of product advertising.

The Alpha machines, however, face stiff competition from Power PC computers from Apple and IBM.

Aetna credit rating cut again

By Richard Waters
in New York

Aetna, the US insurer, suffered another cut in its credit rating this week, the latest in a rash of downgrades that has hit the US property/casualty insurance industry in the wake of growing concerns over pollution and asbestos liabilities.

Others to be downgraded in recent weeks include Cigna, which on Monday announced a withdrawal from the reinsurance business to help rebuild the profitability of its property/casualty operations, and Continental, which last month set aside \$400m for possible future pollution claims.

AM Best, the specialist insurance rating concern, said it had reduced Aetna's rating to single-A minus from single-A. It cited the company's long drawn-out attempts to cut costs, as well as poor conditions in the commercial proper-

ty/casualty business and "the ongoing earnings drag and volatility associated with emerging environmental and asbestos claims".

Aetna surprised Wall Street in July by announcing big pollution-related costs. The company lost its double-A credit rating from Standard & Poor's in August, and in September was cut to A2 from A1 by Moody's.

At the end of June, the company's reserves against environmental losses stood at \$34m - far less than other big insurers, such as Cigna, whose reserves were \$775m, according to insurance industry analysts at Oppenheimer in New York.

The contrast suggests that Aetna will have to put aside significantly greater reserves in future, Oppenheimer said.

Cigna, meanwhile, lost its single-A standing in August when Moody's reduced its rating to Baal, citing in part its

"exposure to adverse loss development from asbestos and environmental claims".

Both Aetna and Cigna contested the agencies' decisions, arguing that they failed to take account of efforts made by both to boost profitability in their property/casualty businesses.

Mr William Wilt, an associate analyst at Moody's, said yesterday the agency believed US insurers generally had adequate reserves to meet normal claims.

However, he added that catastrophe losses among insurers of personal insurance, along with environmental and asbestos losses among commercial insurers, could eventually prove these reserves to be totally inadequate.

Commenting on the possible scale of the future losses, Mr Wilt said: "They're unquantifiable. It's anybody's guess, really."

Columbia/HCA boosted by out-patient side

By Richard Waters

Columbia/HCA, the US's biggest hospital group, recorded a 14 per cent increase in operating earnings in the third quarter to the end of September on the back of a jump in out-patient services.

The company's operating profit margin improved to 18.8 per cent, from 17.9 per cent a year ago, said Mr David Vandewater, chief operating officer.

Columbia/HCA has pulled off a string of multi-billion dollar acquisitions in the past 18 months in an attempt to bolster its market position and strengthen profit margins at a time when healthcare companies across the US are under pressure to reduce their prices. The third-quarter earnings reflected a 2 per cent increase in admissions at hospitals which the company had owned a year before, and a 52 per cent increase in out-patient visits. While hospital stays are declining overall in the US, Columbia/HCA has advanced in part by buying new hospitals in the same areas as its existing facilities and then shifting patients between sites to boost admission rates.

Operating profits for the period were \$507m, up 14 per cent on a year ago, while total revenues were \$2.7bn, up 9.5 per cent. Net income for the quarter was \$133m, or 44 cents a share, after a \$33m charge for the early retirement of debt. The company reported an after-tax loss of \$6m, or 16 cents a share, in the 1993 period after a \$193m of one-off charges.

Talisman ahead at C\$44.1m

Strong North American demand for natural gas and gas liquids and the addition of oil production from the North Sea and Indonesia lifted Talisman Energy's net profit at nine months to C\$44.1m (US\$32.7m), or 61 cents a share, from C\$19.2m, or 38 cents, a year ago, on revenues of C\$887m against C\$719m, writes Robert Gibbins in Montreal.

Third-quarter net profit was C\$15.2m, or 18 cents, up from C\$4.3m, or 7 cents, on revenues of C\$316m against C\$294m.

Salomon debt downgraded after losses

By Patrick Harverson
in New York

Standard & Poor's, the US credit rating agency, has downgraded the debt of Salomon Inc, a week after the group's Salomon Brothers securities broking unit reported its second consecutive quarter of heavy losses.

The downgrading of Salomon's senior debt rating, from single-A minus to triple B plus, will make it more expensive for Salomon to raise funds in the capital markets, because issuers with lower ratings have to offer higher yields to convince investors to buy their debt.

"The immediate effect is a higher cost of funding for Salomon," said Mr Michael Flanagan, securities industry analyst at Lipper Analytical in New York.

The loss of an A rating will also shrink the pool of potential buyers of Salomon's debt, because some institutions do not invest in securities listed below an A rating.

S&P also lowered its ratings on Salomon's subordinated debt and preferred stock.

Poor returns from US purchases, study says

By Richard Waters
in New York

Foreign companies have suffered poor and declining returns on their US acquisitions in recent years, but could see a rebound in overall profitability in the near future, according to a study by two economists at the Federal Reserve Bank of New York.

The two, Mr David Laster and Mr Robert McCauley, note that foreigners have paid \$316bn to buy US companies over the past decade, but lost money overall on their holdings in 1992 - a year of record profits for US-owned companies. The performance, the authors say, "strikes many as unbelievable".

They attribute the results to the tendency of foreign companies to buy poorly-performing US businesses, and to attempt to rebuild them through fresh investment. "These companies paid too dollar for underperforming US firms, borrowed heavily, and then spent freely on investment and marketing," the authors say.

The overall poor performance of foreign-owned firms in 1992 also reflects the heavy

level of purchases in recent years, with many of the businesses still in the early phases of planned turnarounds.

With fewer purchases now, and with some foreigners shedding their loss-making US companies, overall profitability will rise in the coming years, according to the Fed study.

The authors dismiss the suggestion that a weak dollar has depressed the earnings in recent years, but say there is "some evidence" that foreign companies have sought to reduce their profits in the US to cut their tax bills there.

UK companies were the biggest foreign investors in the US last year, and this year should see their total US investments overhaul those of Japanese companies, according to a study of foreign direct investment by Arthur Andersen.

The accounting firm puts investment by US firms either in acquisitions or creation and expansion of businesses at \$3.03bn last year, four times the level of 1992. Japanese companies, meanwhile, invested \$1.8bn, down from \$2.9bn the year before. These figures are well below peaks hit in 1989.

U.S.\$377,992,615

CEMIG

Companhia Energética de Minas Gerais

(Energy Company of Minas Gerais)

4,094,920,000 Preferred Shares

Price U.S.\$24 per ADS

Global Coordinator

J.P. Morgan Securities Inc.

International Offering

1,725,000 American Depositary Shares (Regulation S ADSs)

each representing 260 Preferred Shares

J.P. Morgan Securities Ltd.

NM Rothschild and Smith New Court

Garantia Banking Limited

Indosuez Capital

United States Offering

4,025,000 American Depositary Shares (Rule 144A ADSs)

each representing 260 Preferred Shares

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Garantia Inc.

NM Rothschild and Smith New Court

Bear, Stearns & Co. Inc.

Salomon Brothers Inc

Pactual Capital Corporation

Brazilian Offering

2,599,920,000 Preferred Shares

Brazilian Lead Manager and advisor to the selling shareholder

Banco de Desenvolvimento de Minas Gerais S.A.-BDMG

September 22, 1994

NOTICE
to the holders of outstanding
U.S. \$125,000,000
6.75 per cent. Convertible Bonds Due 2006
(the "Bonds")
of

PT Astra International
(the "Company")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that, the Company has distributed to the holders of its common stock dividend shares for up to 871,912,800 shares of common stock of the Company. Such shares have been distributed pursuant to an Extraordinary General Meeting of Shareholders held on 26th May, 1994. As a result of the shares distribution, the conversion price of the Bonds have been adjusted from Rp. 23,035.00 to Rp. 5,758.75 effective on 1st August, 1994.

3rd November, 1994

PT Astra International

PRICOA Worldwide Investors Portfolio

Société d'investissement à Capital Variable
Registered Office: L-2449 Luxembourg
47, Boulevard Royal
R.C.S. Luxembourg B 39.048

NOTICE TO THE SHAREHOLDERS

By registered mail October 4, 1994

We hereby give you notice to the Annual General Meeting of Shareholders of PRICOA Worldwide Investors Portfolio (the "Company") to be held in Luxembourg at the registered office, on November 11, 1994 at 11.00 a.m. in order to deliberate on the following agenda:

AGENDA

1. Report of the Board of Directors.
2. Report of the Auditor.
3. Approval of financial statements for the fiscal year ended March 31, 1994.
4. Discharge of Directors with respect to the performance of their duties during the fiscal year ended March 31, 1994.
5. Election as Directors for a term of one year of:
Mr. Robert F. Guille
Mr. John A. Morrell
Mr. Michael Sandberg
Mr. Rogerio C. S. Martins
6. Determination as to distributions.
7. Other business.

No quorum on the shares outstanding is required by law and resolutions of the items of the agenda may be passed by the affirmative vote of the simple majority of the shares present or represented at the meeting.

By order of the Board of Directors

Bank of Communications
(The Development Bank of the Republic of China)
U.S. \$100,000,000
Floating Rate Notes due 2001
For the Interest Period 31st October, 1994 to 28th April, 1995 the Notes will carry a Rate of Interest of 6.10% per annum, with a Coupon Amount of U.S. \$7,582.04 per U.S. \$250,000 Note. The relevant Interest Payment Date will be 28th April, 1995.

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0084	00.84	00.84	00.84
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0086	00.86	00.86	00.86
0087	00.87	00.87	

INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Komatsu benefits from public works projects

By Michio Nakamoto
in Tokyo

Komatsu, the Japanese maker of construction equipment, posted a 5 per cent increase in non-consolidated recurring profits - before extraordinary items and tax - for the first six months of fiscal year 1994-95, helped by strong demand from domestic public works projects.

The company, which is the world's second-largest integrated maker of con-

struction machinery, increased recurring profits to ¥7.4bn (\$76.48m) from a previous ¥7bn, in spite of a 3 per cent fall in sales to ¥235.5bn from ¥243.1bn. Net profits surged 21 per cent to ¥4.3bn from ¥3.5bn.

Strong demand from public works projects in Japan helped the company overcome a slump in private-sector orders, Komatsu said. As a result, domestic sales of construction equipment rose 5 per cent.

However, the weakness of private-

sector demand pushed domestic sales of its industrial machinery division down 8 per cent.

In terms of exports, Komatsu suffered from sluggish demand for construction machinery in its largest markets in the Middle East, Russia and China, which aggravated the adverse effects of the yen's sharp appreciation.

Exports of industrial machinery plunged 52 per cent as important customers among vehicle makers in Europe and Asia cut capital investment

substantially. Komatsu exports mainly body presses for the motor industry.

Komatsu expects the weak conditions in its export markets to continue in the second half. As a result, it has revised its full-year sales forecast down to ¥500bn from the ¥510bn forecast in May.

However, Komatsu is restructuring its operations and expects to be able to achieve its earlier forecast for recurring profits of ¥17bn, while forecasting net profits unchanged at ¥9bn.

ASX wins legal battle over new options

By Nikid Tait in Sydney

The Australian Stock Exchange yesterday won a significant victory in its battle with the Sydney Futures Exchange over who should run the market for individual share futures.

A Federal Court judge ruled that the ASX could go ahead with the launch of low exercise price options (LEPOs). These are designed as very deep "in the money" call options whose exercise price could be as little as 1 cent. The options' structure means that they should trade directly in line with the underlying physical stock, but - because of the option market's margin system - the full price only becomes payable on expiry.

The ASX had proposed launching LEPOs last May, a response to the SFE's decision to introduce futures contracts on three individual shares - BHP, News Corporation and National Australia Bank. The SFE was the first to offer individual share futures, and it has subsequently added four contracts (for MIM, Western Mining, Westpac, and BTR Nydex).

Hoping to curtail the ASX's rival ambitions, the SFE mounted a legal challenge to LEPOs, arguing that these were in effect futures contracts and hence could not be traded on the ASX. Under Australian corporate law, there is a strict divide between the two exchanges' potential territories: SFE is restricted to futures trading, while the ASX can only trade securities.

The SFE's argument centred on the fact that an investor was actually obliged to exercise the options, through "economic imperative", and this obligation made the LEPOs "eligible commodity agreements" - bringing them within the definition of futures contracts. In his court ruling yesterday, Mr Justice Sackville said that it was undeniable that the taker of the option had a powerful incentive to exercise the option or close it out. But, he added, "the or she is not bound to do so, in the sense of owing a duty to the writer of the option or anyone else".

Accordingly, he dismissed the SFE's claim, and ordered it to pay the ASX's costs.

The SFE, acknowledging that it was disappointed, said it was taking legal advice over whether to appeal.

Survey shows explanation is still needed

Bankers have been quick to emphasise the importance of properly explaining the derivative products in the wake of this year's highly publicised losses by companies in the US and Europe.

A survey of UK companies, published today, shows that they still have a lot of work to do in this respect. But it also indicates that companies could more to help themselves.

DERIVATIVES

Ninety corporate treasurers - all working for companies which make up the FTSE 100 index - responded to the fourth annual survey by Record Treasury Management, a firm of consultants which advises companies on how to manage currency and other financial risks.

Like previous surveys by Record, this one covers the views of corporate treasurers on interest rate and currency trends as well as broader economic developments. But for the first time the survey also includes a section on derivatives.

It found that although nine out of 10 treasurers use derivatives, more than half these users believe salesmen are not properly explaining the risks involved.

Thirty-six per cent of respondents said banks explained derivatives "inadequately" and a further 18 per cent felt the risks were explained "poorly". Only 1 per cent of respondents said salesmen were explaining and quantifying the risks "very well".

However, other sections of the survey indicate that corporate treasurers may not be doing enough to monitor or manage their derivatives risks adequately.

The survey shows two particular weaknesses. First, in spite of continuing levels of volatility in financial markets, nearly three-quarters of respondents "mark to market" the value of their derivatives exposures no more than once a month or even less frequently.

Only 12 per cent "mark to market" weekly and 16 per cent on a daily basis. Mr Les Halpin, chief executive of Record, says that treasurers should "at least have the facility to mark to market on a daily basis".

"Control and monitoring of exposure to derivative risk is essential even with the less

exotic products on the market," insists Record.

Second, a substantial minority of companies have apparently failed to heed the lessons of some of this year's corporate losses and continue to operate corporate treasury departments as "profit centres".

Although three-quarters of corporate treasurers rank their main role as one of "risk reduction", 9 per cent of respondents believe they can "add value".

Mr Halpin believes corporate treasurers aiming to add value have run into problems because they have taken on risks unrelated to their ordinary business.

"Nearly one in 10 see themselves as profit centres. That is enough to give you all the disasters you need for the next 20 years," he claims.

More generally, there are indications that the management controls and systems for derivatives may not be in place in some companies. Treasury departments appear to allocate relatively few resources to derivative activity, in spite of the fact that it is typically of high value and importance to the company.

It is "hard to know what percentage of resources should be devoted," concedes Mr Halpin. "But this is evidently something that needs looking at."

There are also indications that some treasurers may not be keeping their boards fully informed about their derivatives activities.

Nearly half the companies surveyed require board level approval for transactions of £1m (£1.5m) and above, but as many as one in five companies make decisions about derivatives transactions of £50m or more without board-level approval.

More generally - and perhaps not surprisingly, given the nature of its own activities - Record suggests that companies make insufficient use of specialist advisers. "Treasurers tend to see derivatives as a do it yourself business. In other areas of business where specialised expertise is needed like accounting and the law, companies appoint outside advisers," explains Mr Neil Record, chairman.

Richard Lapper

*Survey of UK Corporate Treasurers, by Record Treasury Management, 32 Peacock Street, Windsor, Berks SL4 1EA

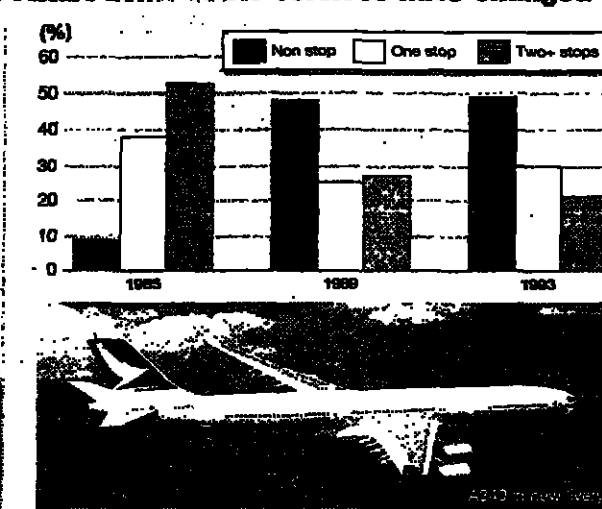
The airline has redesigned its livery to emphasise its Asian image, writes Simon Holberton

Cathay Pacific puts its future in Hong Kong

Non-stop: how Europe-Asia/Pacific route services have changed



Peter Sutcliffe, Cathay Pacific CEO



The twin elements of Cathay Pacific's strategy for beating the recession in the airline industry came together this week when the Hong Kong-based carrier unveiled the first of its newly-acquired, long-range Airbus A340s sporting its new livery.

The redesign of Cathay's corporate identity is meant to shift the airline's image from that of a British to an Asian airline. The acquisition of the A340s is intended to allow Cathay to offer a better service by providing more direct flights - especially in Europe - than it has currently been able to do.

Cathay's investment in new aircraft - it has orders for 40 Airbus A340s - and the new corporate image underlines a third, but less stressed, aspect of the message it wishes to convey. This is that Cathay, which is currently 52 per cent owned by Swire Pacific, the UK conglomerate, has a future in Hong Kong after 1997.

"The old livery had been with us for more than 25 years," says Mr Peter Sutcliffe, Cathay chairman.

"It was distinctive and had done us proud, but its association with old Hong Kong, I don't like to use the word 'colonial', but as with the tail, which used to carry the Union Jack flag, the old livery was outdated. We wanted something that reflected that change. We wanted something Asian in appearance. We wanted a quality look with an Asian flavour."

This desire came from the fact that nearly 80 per cent of Cathay's passengers are Asian. The research Cathay con-

ducted as part of its image redesign underlined its overwhelmingly Asian customer base, and that it was not "catering quite as much as we should to these customers".

Although Caucasian travellers saw Cathay as an Asian airline, Asians, who perceive the airline as being well-managed and safe, did not.

Cathay is trying to change that. The airline now offers a wider range of Asian meals and has begun to communicate in Asian languages. In-flight information and reading materials are now provided in Japanese, Korean, Mandarin and Cantonese, as well as English.

Furthermore, as the result of a management reorganisation last year the airline's four general managers in charge of routes were given greater authority to alter the services to reflect local taste. Taiwanese travellers, for example, want to eat real Chinese food and want to buy duty-free goods on board. Within the constraints of a one-hour flight Cathay is attempting to meet that need.

Mr Sutcliffe says the airline always thought the Boeing 747-400 would serve its long-haul aircraft needs, but the recession in the airline industry and changing consumer tastes altered that. "Serving smaller airports with the 747 became exceedingly expensive as landing fees and over-flight fees rose," he said.

As the airline was flying half-full 747s to Zurich via Rome it found it was losing out to Swissair and Alitalia which were offering a direct service and operating the smaller McDonnell Douglas MD-11.

"We had a good formula in Asia where we used TriStars on the smaller routes but 747s on the big routes such as Tokyo and Singapore," says Mr Sutcliffe.

"We thought a similar approach could be used on long haul. Zurich couldn't justify a non-stop 747 service - the market is not big enough - so it became a choice between the Boeing 777 or the A340. At the end of the day, while the 777 is a superb aircraft, the economics of a four-engine aircraft for ultra-long haul are better than those for a two engine aircraft."

The Airbus had two other advantages. Cathay preferred the seat configuration to that of the 777. The A340 offers six abreast in business class, rather than seven abreast for the 777, and eight abreast in economy, rather than nine abreast. Another compelling factor was "commonality".

There are many common features between the A340 and its smaller sister aircraft the A330, and indeed the even smaller A320. This means that pilots do not need to spend as much time learning to fly others in the Airbus family once they have learned to fly one. This is a large cost saving for airlines and leads to greater pilot productivity as they can be

switched between long- and short-haul routes.

Cathay is probably the only airline which has its future regularly questioned. The change from UK to Chinese sovereignty in 1997 is something which leads many to question whether China will allow Cathay to exist in its present form while being UK-controlled.

Earlier this year Cathay received welcome reassurance of its future when China Southern Airlines, the Canton-based mainland carrier, withdrew from discussions to buy Air Hong Kong, a small local air freight carrier. Cathay was the other bidder and when China Southern withdrew it snuffed up 75 per cent of Air Hong Kong for HK\$200m (\$25.8m).

What was interesting about China Southern's withdrawal was Beijing's intervention. Mr Lu Ping, China's top official on Hong Kong affairs, personally intervened to prevent China Southern buying Air Hong Kong.

Failure to have done so would have undermined, possibly fatally, the guarantee to Cathay implicit in Sino-British agreements that it would be the sole airline for Hong Kong after 1997.

Mr Sutcliffe demurs when asked about the Air Hong Kong talks - in which he represented Cathay's interests. "I understand that [China Southern] did not have the wholehearted support of the authorities in China."

"If that is the case then it was just another reflection of the policy of the state council, namely, that Hong Kong should be able to develop independently as it has in the past."

Inevitably, the firmness of Swire's 52 per cent ownership of Cathay is questioned. Mr John Godfrey, conglomerate analyst at Kleinwort Benson Securities in Hong Kong, believes that after 1997 Swire may well find it prudent to trim its stake in the airline to below 50 per cent.

He believes a merger between Cathay and Dragon Air might be the answer. "It is logically possible to wrap them up into one group," he says.

Without commenting directly on Mr Godfrey's suggestion, Swire executives concede that as things develop there may be a need to conduct some fine-tuning of the Swire shareholding, but nothing dramatic.

"One has to be realistic," observes one executive.

Thai banking sector buoyant

By William Barnes
in Bangkok

The Thai banking sector is proving to be robustly profitable in the third quarter in spite of fears that increased competition and a tougher interest rate regime could hurt revenues.

Bangkok Bank, the biggest financial institution in southeast Asia, reported a 31 per cent rise in third-quarter net profits to Bt4.83bn (\$173m).

This proved to be a disappointment for some analysts, however, after Thai Farmers Bank had earlier reported a net gain of 66 per cent to Bt2.7bn and Krung Thai a 75 per cent profit increase to Bt2.35bn in the quarter to end-September.

Bangkok Bank - like most other Thai banks - issues only a bare profits figure prior to the release of the full audited financial figures. A spokesman said net profits should rise at least nearly 30 per cent over

the full year to about Bt18bn.

Bangkok Bank's lending growth climbed 12 per cent over the three quarters, ahead of deposit growth which rose 6.3 per cent, according to the spokesman.

Analysts say there have been three principal reasons for the sector's buoyant profits - accelerated loan growth, slower-than-expected convergence of spreads between deposit and lending rates, and declining loan-loss provisions.

Czech brewery to take stake in SA company

By Mark Suzman
in Johannesburg and
Joe Cook in Prague

Ostrava Pivovary, the 12th biggest brewer in the Czech Republic, has agreed in principle to take a 25 per cent stake in Vivo Beer, a South African beer company that is currently a wholly owned subsidiary of National Sorghum Brewery, the country's largest black-owned private company.

The deal was finalised this week in Johannesburg and a formal announcement is expected shortly. The value of the transaction has not been released. Under the deal the Czech brewer will license its production techniques and management know-how to the South African company. NSB was established by the South African government to serve the market for maize-based beers.

Mitsubishi Materials up 26%

By Emiko Tarazono
in Tokyo

Mitsubishi Materials, a leading Japanese metals and ceramics manufacturer, posted firm profits for the half-year to September due to cost-cutting efforts and an improvement in its financial balance.

Non-consolidated recurring profits - before extraordinary items and tax - for the first half rose 26 per cent to ¥2.6bn (\$26.8m) on a 0.3 per cent rise

in overall sales to ¥344bn. While the company saw an increase in shipments of aluminium cans due to a sharp rise in demand for soft drinks, declines in product prices offset the gains.

Operating earnings rose 44.8 per cent to ¥8.3bn. However after-tax profits shrank 4.4 per cent to ¥1.1bn due to an extraordinary loss of ¥6.4bn stemming from loan-loss reserves. The company faced earnings declines in spite of a

special profit of ¥4.6bn from asset and securities sales.

Sales of metals fell 1.4 per cent to ¥122.2bn while cement sales declined 4.6 per cent to ¥54.9bn. Sales of aluminium cans rose 8.8 per cent to ¥41.4bn while new materials and silicon sales rose 10.6 per cent to ¥34.7bn.

For the year to next March, Mitsubishi Materials expects a 35.8 per cent rise in current profits to ¥3.5bn on a 2.6 per cent rise in sales to ¥700bn.

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States or in any other jurisdiction where registration or an applicable exemption from the registration requirements is required. These securities have been previously sold. This announcement appears as a matter of record only.

October 14, 1994

\$122,000,000

Caribbean Basin Projects Financing Authority
(A Governmental Instrumentality of Puerto Rico)

CBI Industrial Revenue Bonds, 1994 Series A, Series B and Series C
(Jamaica Private Power Company Limited Project)

The Bonds are limited obligations of Caribbean Basin Projects Financing Authority payable solely, except to the extent payable from bond proceeds and certain other monies assigned thereto, from an assignment of revenues to be derived by the Authority from three loan agreements between the Authority and:

JAMAICA PRIVATE POWER COMPANY
a limited liability company organized under Jamaican law which is sponsored and partly owned by affiliates of:

HYDRA-CO Enterprises, Inc. **U.S. Energy Corporation**
International Energy Partners, L.P. **Procon Systems, Inc.**

has entered into a loan agreement with

National Investment Bank of Jamaica
\$81,000,000 Loan Facility maturing 2011

which will be funded by

International Bank for Reconstruction and Development **Inter-American Development Bank**

to be drawn upon the redemption or maturity of CBI Industrial Revenue Bonds, 1994 Series A.

and has also entered into debt and standby debt facilities with

Commonwealth Development Corporation
\$14,000,000 Base Debt Facility
\$5,800,000 Standby Debt Facility

The undersigned acted as financial advisors to Jamaica Private Power Company for the structuring of the Financing

CS First Boston **International Energy Finance, Ltd.**

Deutsche Bank AG, New York Branch
with participation of **Banko Santander S.A.**, New York Branch
in the case of the Series B and Series C Bonds

BOT Financial Corporation as lead agent, and **NationsBank** in the case of the Series A Bonds

CS FIRST BOSTON

This announcement appears as a matter of record only.

October 14, 1994

JAMAICA PRIVATE POWER COMPANY
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\$5,800,000 Standby Debt Facility

The undersigned acted as financial advisors to Jamaica Private Power Company for the structuring of the Financing

CS First Boston **International Energy Finance, Ltd.**

Mortgage Funding Corporation No.4 PLC
Incorporated in England and Wales with limited liability under company number 21254659

Dual-Class Mortgage Backed Floating Rate Notes Due 2035

Class A-1 £100,000,000
Class A-2 £100,000,000

For the interest period 31st October, 1994 to 31st January, 1995 the Class A-1 notes will bear interest at 6.4125% per annum. Interest payable on 31st January, 1995 will amount to £265.07 per £10,000 note.

The Class A-2 notes will bear interest of 6.6125% per annum. Interest payable on 31st January, 1995 will amount to £1,006.71 per £100,000 note.

Bankers Trust Company, London Agent Bank

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INFORMATION: Binfield Vakil
101 House, 78 Fleet Street, London EC4A 3DF
Tel: 444 (0) 71 842 4083

SAINT GOBAIN
ECU 125,000,000 - Variable Interest Rate - No Fixed Redemption Date

Bondholders are hereby informed that the rate applicable for the twentieth interest period has been fixed at 6.50%.

The Coupon N°20 will be payable as from April 28th 1995 at a price of ECU 164.31 representing the period from October 28th 1994 to April 27th 1995 (included).

The Fiscal and Reference Agent

CREDIT LYONNAIS

Lavoro Bank Overseas N.V.
ECU150,000,000
Floating Rate Guaranteed Notes due 2000

For the six months 31st October, 1994 to 28th April, 1995 the Notes will carry an interest rate of 6.28125% per annum with an interest amount of ECU 312.32 per ECU10,000 Note and ECU 7,807.94 per ECU250,000 Note, payable on 28th April, 1995.

Listed on the Luxembourg Stock Exchange

Bankers Trust Company, London **Agent Bank**

The Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe

Italian Lire 150,000,000,000
Reverse Floating Rate Notes due 1998

For the Interest Period 31st October, 1994 to 28th April, 1995, the Notes will carry an Interest Rate of 11.61736 per cent per annum with an Interest Amount of ITL 290,934 per ITL 5,000,000 Note, and ITL 2,909,340 per ITL 50,000,000 Note, payable on 28th April, 1995.

Listed on the Luxembourg Stock Exchange

Bankers Trust Company, London **Agent Bank**

CITICORP
U.S. \$250,000,000 Floating Rate Notes Due November 1999 (the "Notes")

Notice is hereby given that the Rate of Interest for the Interest Period November 3, 1994 to February 2, 1995 has been fixed at 5.425% and that the interest payable on the Notes during the Interest Period February 3, 1995, against Coupon No. 1 will be US\$7.443 in respect of US\$5,000 nominal of the Notes.

November 3, 1994, London
By: Citicorp, N.A. (Issuer Services), Agent Bank

CITIBANK

INTERNATIONAL CAPITAL MARKETS

Renewed dollar weakness forces Treasuries lower

By Lisa Branstetter in New York and Corinne Middelmann in London

Early declines in US Treasury prices yesterday morning pushed yields to 2 1/2-year highs, but a recovery in the dollar following Federal Reserve intervention helped the market bounce off its lows. Prices, however, remained firmly rooted in negative territory.

By midday, the benchmark 30-year government bond was down 1/8 at 93 1/8 yielding 8.081 per cent. At the short end, the two-year note was down 1/8 at 99 1/8 to yield 6.926 per cent.

Early gains following market-neutral economic news were quickly overtaken by events in the currency markets, where the dollar sank to post-1985 lows against the Japanese yen.

Renewed weakness in the dollar unnerved the bond market

investors, who fear it will deter foreign investors from buying US assets, and contribute to inflation.

At one point, the long bond's decline was sufficient to push its yield up to 8.11 per cent, its highest level since May 1992.

Prices bounced back later in the morning after the Fed intervened in the currency market, wiping out early morning losses. The success of the Fed's actions encouraged investors, who had previously feared that the central bank was unwilling to protect the US currency.

The concern over the dollar overshadowed earlier economic reports. The Commerce Department reported no change in its index of leading economic indicators for September, and revised its August reading downward to an increase of 0.5 per cent from the 0.6 per cent figure reported last month.

The government also announced that factory orders declined 0.2 per cent in September, a sharp turnaround from the 4.7 per cent surge in orders reported for the previous month.

GOVERNMENT BONDS

Taken together, the data were broadly neutral for bond market sentiment.

Weakness in bond prices was also partially a reflection of investor nervousness before tomorrow's October jobs report. The market's concern is that a stronger than expected report could provide an immediate interest rate increase by the Fed.

The US dollar's woes and further declines in Treasuries depressed European govern-

ment bonds yesterday. Federal Reserve intervention to support the dollar on the foreign exchanges prompted a modest bounce, but most markets closed lower on the day.

There's no great deal of focus on European fundamentals these days, said Mr. Ily Islam, international economist with Merrill Lynch.

With the US payroll data dominating, the bond markets will still very much eye the foreign exchange and Treasury markets.

German government bonds ended the day nearly 1/8 point lower, but well above their lows. The December bond future on DTB closed at 88.76, down 0.55 point but off its 88.55 low.

In the morning, prices firmed on a leak pointing to lower than expected September industrial output data. The

number of numbers were indeed lower than forecast, but the data were accompanied by a warning that the rate could be revised upwards by two percentage points next month, causing the market to slip back.

Bonds are expected to remain dogged by continuing currency and interest rate jitters in the US and before next week's new 10-year supply data. Dealers said many investors were unwilling to build up significant positions as the end of a difficult year approaches.

Although UK government bonds recouped some of their earlier losses, they closed 1/8 point lower. The long gilt futures contract on Long End at 100 1/8, down 1/8 on the day.

Early in the day, gilts slipped on the growing feeling that Tuesday's gains on the back of

the Bank of England's inflation report had been overdone. The weak US bond market put a further damper on gilts.

Italian bonds were hit by the upheaval in the currency markets, with the weak dollar pushing the lira to an all-time low against the D-Mark. This coincided with renewed speculation that Prime Minister Silvio Berlusconi would resign - rumours which were swiftly denied.

However, the fact that currency weakness was enough to spark rumours of Mr. Berlusconi's demise highlights the degree of political unease in Italy, dealers said.

Swedish bonds fell on disappointment over the government's budget package. The yield on the 11-year bond rose 11 basis points to 11.30 per cent.

Four banks handle Portuguese sell-off

By Martin Brice

A four-bank consortium of Merrill Lynch, Banco Esat (the merchant banking arm of Espirito Santo, one of Portugal's leading financial groups), UBS and S.G. Warburg is to handle the sale of up to 30 per cent of Portugal Telecom, which is likely to be the biggest global telecoms privatisation of next year.

The deal will consist of four tranches, each handled by a different bank. The domestic tranche, which will be listed in Lisbon, will be handled by Banco Esat; the North America tranche by Merrill Lynch; the UK tranche by S.G. Warburg and the rest of the world by UBS.

Between 20 per cent and 30 per cent of the company will be sold in the initial public offer-

ing, which could raise between \$1.2bn and \$1.5bn. This would be Portugal's biggest privatisation and would value the whole company at between \$4bn and \$5bn.

The offering is likely to take place in the second quarter of next year.

Three international banking consortia were consulted by the Portuguese government to undertake a valuation of the company, which was formed by the merger earlier this year of three state-owned telecommunications utilities and is the country's biggest employer.

Portugal, which has about 94 telephone lines per 100 population, is expected to open its telephone services to competition by 2005, five years after most of the European Union.

Andalucia makes eurodollar debut as activity steps up

By Graham Bowley

The eurobond market saw an acceleration of activity yesterday with a number of new offerings launched into difficult market conditions.

Comunidad Autonoma de Andalucia, the southern Spanish province, launched its debut eurodollar issue, with a \$260m offering of bonds due January 2000.

The bonds offered a coupon of 8 per cent and were priced to yield 47 basis points over US Treasuries, although this spread widened slightly after the bonds were freed to trade.

Joint lead manager Goldman Sachs reported strong demand from investors in Asia/Pacific, UK institutions and continental European retail investors, who were attracted by the relatively high five-year coupon.

Deutsche Bank, the other lead manager, saw strongest

demand on its books from Swiss, German and UK investors, with French banks also showing interest.

The proceeds from the offering are to be used mainly for infrastructure financing. Gold-

man Sachs said. The proceeds were not swapped out of dollars, market sources said.

At the shorter end of the dollar sector, Hewlett-Packard Finance, another relatively infrequent borrower, launched a \$250m offering of three-year bonds priced to yield 25 basis points over US government bonds.

The bonds were sold mainly to retail investors in Germany, Switzerland, and Belgium and to institutional investors in the UK, lead man-

ager Deutsche Bank said.

The bank said that the offering was launched partly as a result of the demand for a new dollar paper following the launch of a similar offering by Deutsche Bank Finance last week. The proceeds from the offering were believed to have been swapped into floating rate dollars, market sources said.

The pricing spread widened to about 28 basis points after the bonds were freed to trade. However, Deutsche Bank said that it expected the offering to follow a similar pattern to that of the Johnson & Johnson three-year issue launched last week at 15 basis points over but which has since tightened in price.

Hewlett-Packard Finance last tapped the dollar sector in 1992, Deutsche Bank said.

In the D-Mark sector, Deutsche Bank launched a DM750m offering of

five-year bonds priced to yield 30 basis points over German government bonds. Joint lead manager UBS said demand from institutional investors was better than expected, with about two-thirds of the bonds

going to European institutions.

Deutsche Bank's largest mortgage bank and 65 per cent of its new loan business is to the public sector. It has raised about DM150m since January and plans to raise a further

DM200m this year, although this is likely to be in the domestic market rather than the public sector, Deutsche Bank said.

The proceeds, to be used for general funding purposes, were not swapped out of D-Marks.

CS First Boston launches global on-line system

By Corinne Middelmann

CS First Boston was today launching a global on-line electronic trading system for US government bonds and related securities.

GovTrade, as the system is known, allows investors to buy and sell US Treasury bills, notes and bonds from the start of European trading hours to the close of US trading (18 hours) on a live market that can be accessed through Bloomberg terminals.

To trade, an investor chooses on the Bloomberg screen an issue in which CS First Boston makes a price, completes an electronic dealing ticket and transmits the trade to CS First Boston's government bond traders, who confirm the trade.

This procedure frees up some of the bank's trading and sales

staff, enabling them to perform tasks other than executing straightforward client orders.

According to Mr. Jim Tuffey, head of electronic trading for CS First Boston, the bank processes more than 4,200 trades electronically with its customers in October alone. However, he says the system will "complement, rather than replace" the salespeople by offering speed of execution in a liquid and fast-moving market.

The system is an expansion of the firm's proprietary GovTrade product which was launched in September 1992. To date, securities worth \$800m have been traded on the system with more than 400 customers in the US, the bank says. Some 75 investors outside the US are currently viewing the product.

WORLD BOND PRICES

Table with columns: Country, Coupon, Maturity, Price, Yield, etc. Includes data for Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain, UK, and US Treasury.

BOND FUTURES AND OPTIONS

Table with columns: Country, Maturity, Price, Yield, etc. Includes data for France, Germany, and Japan.

UK GILTS PRICES

Table with columns: Maturity, Price, Yield, etc. Includes data for various UK government bonds.

ITALY

Table with columns: Maturity, Price, Yield, etc. Includes data for Italian government bonds.

Spain

Table with columns: Maturity, Price, Yield, etc. Includes data for Spanish government bonds.

UK

Table with columns: Maturity, Price, Yield, etc. Includes data for UK government bonds.

Japan

Table with columns: Maturity, Price, Yield, etc. Includes data for Japanese government bonds.

US

Table with columns: Maturity, Price, Yield, etc. Includes data for US government bonds.

FT-Actuaries Fixed Interest Indices

Table with columns: Index, Nov 2, Nov 1, etc. Includes data for various fixed interest indices.

FT Fixed Interest Indices

Table with columns: Index, Nov 2, Nov 1, etc. Includes data for various fixed interest indices.

FT/ISMA International Bond Service

Table with columns: Issued, Bid, Offer, etc. Includes data for international bonds.

Other Fixed Interest

Table with columns: Index, Nov 2, Nov 1, etc. Includes data for other fixed interest indices.

GILT-Edged Activity Indices

Table with columns: Index, Nov 2, Nov 1, etc. Includes data for GILT-Edged activity indices.

Convertible Bonds

Table with columns: Index, Nov 2, Nov 1, etc. Includes data for convertible bonds.

Other Fixed Interest

Table with columns: Index, Nov 2, Nov 1, etc. Includes data for other fixed interest indices.

Other Fixed Interest

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First get-together since the shift in the balance of power

Realigned Lonrho board meets

By Robert Peston

Lonrho, the international trading group whose joint chief executives, Mr Tiny Rowland and Mr Dieter Bock, have been at war with each other, will today hold its first board meeting since the retirement of two of Mr Rowland's closest allies.

The retirements have shifted the balance on the board in favour of Mr Bock in his struggle against Mr Rowland. An associate of Mr Rowland said yesterday that today's meeting would be significant in showing how Mr Bock intended to exploit this power.

Mr Bock launched an abortive coup two months ago to oust Mr Rowland from his executive duties. However,

hours before September's board meeting Mr Bock backed off from proposing that Mr Rowland should step down when he became concerned that he could not count on the support of a majority.

A number of Lonrho's directors belatedly took fright from challenging Mr Rowland because they were concerned that he would challenge any attempt to oust him through the courts.

Today's meeting is the first to be chaired by the new temporary chairman, the former diplomat Sir John Leahy. He replaces Mr Rene Leclezio, one of Mr Rowland's staunchest allies, who retired last month. Another of Mr Rowland's most loyal supporters, Mr Robert Dunlop, also retired recently.

It is widely believed within Lonrho that Mr Rowland would sever his 30-year relationship with the company if Mr Bock, owner of 18.8 per cent of Lonrho's shares, offered him a £50m premium over the market price for his 48.8m shares. However Mr Bock is thought not to be prepared to pay that price.

Today's meeting is also the first since the disclosure last week in the Financial Times that Mr Rowland had embroiled the company in a new court case brought by its erstwhile corporate opponent, Mr Mohamed al-Fayed, by providing an indemnity to a former employee of Mr Fayed, Mr Graham Jones, who allegedly defected to Lonrho.

Mr Fayed is suing Mr Jones for breach of confidence and is therefore also in effect suing Lonrho. It is particularly embarrassing for Lonrho that it should find itself on the opposite side of a case brought by Mr Fayed, because it is only a year since they settled their bitter and costly legal battle over the manner in which Mr Fayed purchased House of Fraser in 1985.

According to an associate of Mr Rowland, the indemnity is likely to be discussed by the board meeting.

Mr Rowland will insist that he has not damaged Lonrho because he will say that Mr Fayed is once again his friend and would not pursue the action if it was seen to be hurting him.

New Look postpones flotation plans

By Christopher Price

The adverse market conditions for new issues were yesterday blamed for yet another postponement when New Look, the Dorset-based women's wear chain, cancelled its flotation plans.

The company, which had been hoping for a market value in excess of £150m, was due to announce the pricing of its shares today.

Schroders, the company's advisers, said: "In this negative environment, people were looking for any excuse not to invest. They couldn't believe that its rate of success could continue."

Fund managers approached by the company and its advisers in the past couple of days said they had been offered the shares at a 30 per cent discount to the retail sector - a surprising figure even in the current subdued environment for new issues - and had turned them down.

One institutional investor said: "I had reservations about the management, the management structure and the rate of expansion. It's as simple as that." Another added: "With such high margin rates, we were concerned over any further room for growth."

Some 35 per cent of the equity was due to come to the market through a placing and intermediaries offer. The flotation was to have raised about £10m of new money.

New Look, which has 224 shops, is aimed at the lower end of the women's fashion market. It has more than tripled operating profits and turnover in the past three years. Profits of £11m last year were almost matched by the £9.92m posted for the six months to September 24. Operating margins were 16.9 per cent.

The company, founded in 1969, is owned by the Singh family, with Mr Tom Singh, the deputy chairman, and other members of the board including Mr Louis Sherwood, the non-executive chairman, who was appointed in September.

Another non-executive was appointed last month, as was the finance director, Mr Peter Phillips, formerly of Hepworth and British Nuclear Fuels.

Manchester United plans to expand stadium

Manchester United yesterday confirmed plans to expand the capacity of its Old Trafford stadium by 22 per cent to 64,000.

The company refused to reveal how it would finance the expansion or how much it would cost, saying the application for planning consent was only a preliminary step.

It is expected to use part of its £13.6m cash reserves to fund the development and

BET rises to £58m amid signs of better margins

By Andrew Bolger

BET, the business services group, reported a 25 per cent increase in pre-tax profits from £46.1m to £57.7m for the six months to October 1, and said it was seeing signs of improvement in its profit margins.

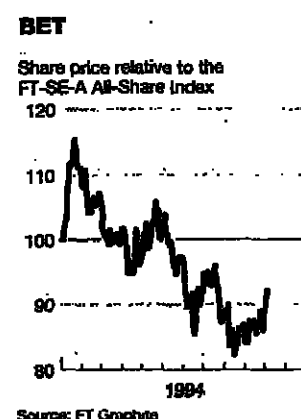
Turnover fell from £880m to £864m, but last year's figure included businesses sold in the first half. Excluding disposals, sales rose by 1 per cent.

Operating profits rose to £55.7m (£49.3m). Earnings per share grew to 4.5p (3.3p) and the interim dividend was increased to 1.2p (1p).

Mr John Clark, chief executive, said: "The increase in published earnings and the early signs of improvement in overall gross margins are both encouraging. We continue to seek improvements in productivity which will offset cost inflation and price pressure. These actions are key to 1994-95 earnings growth."

Capital expenditure in the first half more than doubled to £78m. Net cash at the period end was £18m, against £5m last September and a £67m at the year end in April. Shareholders' funds increased to £288m, against £250m at the year end.

Mr Keith Payne, director of finance, planning and development, said the group had spent



£22m on bolt-on acquisitions during the first half. He expected to conclude several deals during the second half.

Mr Clark said in May that the group was willing to consider acquisitions again after a long period of divestments. He said yesterday that he would be prepared to let gearing rise to about 30 per cent, if the right opportunity arose.

A £5.3m gain on disposals was offset by a further £7m of rationalisation costs.

Business services - comprising cleaning, personnel, security, catering and facilities management - saw sales increase 2 per cent to £370m, although operating profit fell 14 per cent to £11m.

Distribution services

increased operating profit by 19 per cent to £15.6m, led by the US tanker and Zimbabwean distribution businesses.

Plant services increased operating profit by 13 per cent to £20.5m, excluding asset write-offs in the prior year. Turnover fell by 9 per cent to £190m.

Turnover from textile services fell 2 per cent to £119m and operating profit was down 10 per cent to £17.2m.

COMMENT

Mr Clark gets credit in the City for stabilising BET, which overextended itself by a series of acquisitions in the 1980s. The question is: where does it go from here? Since the chief executive joined in 1991, disposals and rationalisations have reduced the group from 180 operating companies to 59 profit centres. Mr Clark is now talking about "growth over time", which suggests there will be no swift bounce in the group's performance. Forecast full-year profits of £108m put the shares, up 3p yesterday to 114½p, on a prospective multiple of 13.5 - a small discount to the market. The shares are unlikely to move significantly unless and until BET demonstrates that its remaining businesses really can deliver improved productivity and profits.

Bae reserves right to lift VSEL bid

By Tim Burt

British Aerospace yesterday refused to rule out making a revised offer for VSEL, the nuclear submarine maker. Mr Bob Bauman, chairman, told BAE shareholders that although it expected GEC's rival £525m offer to be blocked on competition grounds, BAE reserved the right to increase its own bid.

"Our offer is an open one, which doesn't prevent an increase," he said.

Two and a half weeks ago, BAE offered 2.474 shares for each VSEL share with a

cash alternative of £11.40. At BAE's closing price yesterday, down 2p at 450p, the bid values each VSEL share at £12.36.

Mr Bauman, however, claimed that the VSEL board would recommend the BAE offer ahead of GEC's cash bid because it would secure the future of its Barrow shipyard and open new markets for its land-based defence systems.

"It is also in the best interest of VSEL, as it poses no competition concerns for defence procurement in the UK," he said.

Shareholders approved a resolution allowing BAE to proceed with the offer,

despite a series of questions to the board over a clause allowing it to extend or amend the bid.

Mr Richard Laphorne, finance director, sought to reassure investors that a revised offer might not be necessary by pointing out that if BAE's share price rose by 60p the current bid would be worth £14 a share.

Justifying the proposed acquisition, he added that VSEL profits would reduce BAE's tax rate from 33 to 25 per cent and greatly strengthen its balance sheet.

See Observer

Confident in the ability to deliver

John Weston puts BAE's case for taking over VSEL to Bernard Gray

The battle over VSEL, the Barrow-based submarine maker, is starting to get aggressive. In part that is because the fight is not just about the future of one shipyard in Cumbria, but about the future direction of the entire UK defence industry. And as it is so important, it is a fight which neither side can afford to lose.

So what kind of industry will it be and will British Aerospace or GEC lead it?

Mr John Weston, chairman of British Aerospace's defence arm, speaks with obvious conviction about who should be in the driving seat. "If the government has to pick a national champion in defence, then I think leadership by GEC is not the best solution."

His view is that British Aerospace has the right skills, right products and the imagination necessary to succeed in the increasingly complex world of defence manufacturing. For good measure he adds that while BAE has had its fair share of problems with its civil operations, its defence arm has been consistently profitable with good margins and is 50 per cent larger than GEC's defence operation.

"Systems integration and the ability to manage prime contracts are the most important areas for a defence company now," he argues.

Mr Weston's point is that modern military systems are so complex that controlling the process of putting the parts together is as important as the ability to design new equipment itself.

With the ministry of defence pushing more of the financial risks of developing and manufacturing equipment on to defence companies, the skill of being able to control a project with hundreds of subcontractors and suppliers, and mil-



John Weston: BAE's defence arm has been consistently profitable

lions of components, is vital for profitability. These are two skills which, he claims, BAE has in abundance.

"Things have changed enormously over the past 50 years. The Spitfire was probably designed by a team of at most 50 engineers. We have between 4,000 and 5,000 people working on the Eurofighter design. It is no longer possible to talk of individuals designing aircraft. You need the systems to be able to control that hugely complex process."

In the case of VSEL, the job of bringing together the electronics, nuclear reactor, sonar, weapons and manufacture of the pressure hull of a submarine and making them work is a similar job to the production of a fighter aircraft. Hence Mr Weston's belief that, despite the obvious differences

between silent submarines and fast jets, BAE is well placed to run the shipyard.

On the wider issue of the future of the defence industry in Europe, Mr Weston is looking to strengthening cross border alliances, and as prime contracting skills are the most important element, he thinks BAE is well placed to take a leading role.

In military affairs "European integration is going on, none of the armed forces can now afford a fully independent set of skills, and they are becoming interdependent. Industry is following that trend."

"The process has been slower in Europe than in the US, where mergers and rationalisation have been happening at breakneck pace. There is also a strong suspicion among many observers that when continen-

tal Europeans talk about rationalisation, they mean someone else.

"The UK has started to grasp the rationalisation issue. Some of our continental partners have taken a little longer to get there, but there is now a consciousness that change is necessary," he says.

Some moves towards cross-border links are already happening. BAE is negotiating to merge its missile business with Matra of France. It has also looked at a merger of its Royal Ordnance operation with Giat, the French ammunition manufacturer.

Mr Weston also points to the way BAE's military division has retrenched in the 1990s as proof that the company has taken the hard decisions. "In the past five years we have reduced the number of people in our military business from 66,000 to 31,000, at the same time as increasing sales by 10 per cent."

According to Mr Weston, BAE is also doing all the other Good Things which any switched-on manufacturer must do to survive in the 1990s. "We have had a major drive to find out what our customers want and give it to them. We are now trying to get the most out of our people, and encouraging them to learn from other parts of the business and outside. We want to eliminate the 'not invented here' mentality which can be so damaging."

In the end, however, doesn't GEC's greater financial muscle give it an enormous advantage over BAE? If it does, Mr Weston professes not to be impressed. "Financial strength is undoubtedly helpful. But the defence business is not ultimately about financial strength and making black boxes. It is about delivering systems to spec and on time."

Half of BZW staff may be moved to Canary Wharf

By Robert Peston

Barclays de Zoete Wedd, the investment banking subsidiary of Barclays, yesterday told its 3,500 staff that more than half of them were likely to be relocated to Canary Wharf in East London.

In an internal memorandum, it told employees that it was in negotiations to rent two trading floors, or about 500,000 sq ft of space.

The deal would be a boost for the east London property development, which was refinanced by its banks last year and came out of administration. It was built by the Canadian developer, Mr Paul Reichmann, at the turn of the decade.

BZW's decision to reconsider

Canary Wharf will surprise many in the City, because only last month it was widely reported that it had decided not to move there.

However, Mr Martin Taylor, Barclay's chief executive, said the previous decision was that the whole of BZW should not move so far from the City.

However, there was a strong case for moving staff to Canary Wharf who did not need to meet clients regularly.

Among departments likely to move are: markets, which include bond, foreign exchange and money market trading, and debt capital markets, which combines the creation

and trading of derivative products.

The firm's corporate finance and equity departments are likely to remain closer to the City. They are expected to occupy Royal Mint Court, the refurbished eighteenth century building already occupied by Barclay's senior management.

Mr Taylor said that the decision of where to house the investment banking firm was one of the most difficult he had faced since joining the bank last year.

Barclays was one of the main lenders to Canary Wharf and has suffered significant losses on its loans to the project.

Tele-Cine Cell to join market with £20m tag

By Paul Taylor

Shares in Tele-Cine Cell have been priced at 170p, valuing the Soho-based group at £20m. The video editing and special effects group whose recent projects have included Guinness's 'glass universe' commercial, is coming to market via a placing of 4.7m shares, representing 40 per cent of the expanded capital.

Half the shares are being sold by existing shareholders including the group's joint managing directors, Mr John Rowland and Mr Paul O'Hagan, who will each retain a 12.5 per cent stake. They will make a little more than £500,000 each and Mr John Graves, co-founder of Tele-Cine, will receive about £22m.

The remaining 2.25m shares are being issued by the group to raise £4m new funds. This will be used to reduce borrowings and provide working capital.

The group is divided into two

main businesses, both of which operate in fast growing high-technology markets.

Tele-Cine undertakes film transfer, video editing and sound mixing, together with tape transfer, standards conversion and archiving. Cell uses motion control filming, 3D computer graphics and digital editing systems to create special effects sequences.

The group continued to grow organically through the recession and capital expenditure has amounted to £8.3m in the last 3½ years.

Last year the group made pre-tax profits of £1m (£778,000) on turnover of £9.6m (£8.1m). Profits grew to £1.28m in the six months to June 30 on turnover of £6.19m. Directors have forecast full-year pre-tax profits of not less than £2.2m.

On the basis of the forecast earnings per share for the year the flotation price represents a prospective multiple of 11.8. Dealings are expected to begin on November 10.

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PUBLIC WORKS LOAN BOARD RATES

Effective November 1					
Quota loans					
Term	Rate	Rate	Rate	Rate	Rate
Over 1 up to 2	7 1/4	8 1/4	9 1/4	10 1/4	11 1/4
Over 2 up to 3	7 1/2	8 1/2	9 1/2	10 1/2	11 1/2
Over 3 up to 4	7 3/4	8 3/4	9 3/4	10 3/4	11 3/4
Over 4 up to 5	8 1/4	9 1/4	10 1/4	11 1/4	12 1/4
Over 5 up to 6	8 1/2	9 1/2	10 1/2	11 1/2	12 1/2
Over 6 up to 7	8 3/4	9 3/4	10 3/4	11 3/4	12 3/4
Over 7 up to 8	9 1/4	10 1/4	11 1/4	12 1/4	13 1/4
Over 8 up to 9	9 1/2	10 1/2	11 1/2	12 1/2	13 1/2
Over 9 up to 10	9 3/4	10 3/4	11 3/4	12 3/4	13 3/4
Over 10 up to 15	10 1/4	11 1/4	12 1/4	13 1/4	14 1/4
Over 15 up to 25	10 3/4	11 3/4	12 3/4	13 3/4	14 3/4
Over 25	11 1/4	12 1/4	13 1/4	14 1/4	15 1/4

*Non-quota loans are 1 per cent higher and non-quota loans 2 per cent higher in each case than quota loans. Fiscal minimums of principal 1% (payment by half-yearly, evenly timed) and half-yearly payments to include principal and interest. \$ With half-yearly payments of interest only.

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Series Designation	Rate	Interest Amount	Interest Payment Date
USD Discount Series B 7.5000 Pct. P.A. USD	34.02 Pct. USD	1,000	May 2, 1995
YEN Discount Series 5.5100 Pct. P.A. YEN	1,000.00 Pct. YEN	100,000	May 2, 1995

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Deal involving investment of up to \$300m expected in few months

Zeneca seeks US healthcare links

By Daniel Green

Zeneca, the drugs company, is considering forming joint ventures with US healthcare suppliers as an alternative to the multi-billion dollar acquisitions made by rivals such as SmithKline Beecham.

A deal involving either a joint venture or close links with a US healthcare company is likely within four months.

It would probably involve a cash commitment of between \$200m and \$300m (£190m) over several years.

Creating a free-standing joint venture would be an unusual approach to dealing with the newly cost-conscious US healthcare industry.

The highest profile strategies so far have been from SmithKline and two US companies, Merck and Eli Lilly. Between them the two US companies have spent more than \$12bn in 15 months on buying Pharmacy Benefit Managers (PBMs) and Health Management Organisations (HMOs). These are two types of business which negotiate deals with hospitals and drug makers on behalf of employers who pay health insurance premiums for employees.

But last month's decision by the US Federal Trade Commission to impose conditions on the Eli Lilly purchase has put the whole acquisition strategy in question.

Zeneca is in talks with several HMOs on a tie up. It has established Stuart Disease Management in the US.

Disease management programmes are attracting increasing interest in the US. The idea is that patient care should include the provision of non-drug treatments, such as diet regimes and screening programmes.

Zeneca's biggest-selling product is Zestril, the heart drug. The company also produces low-fat, low-salt foods - of the kind recommended for many heart disease sufferers - that could find new markets in healthcare.

Mr David Barnes, Zeneca chief executive, said yesterday

he wanted to keep open options that would be closed by a large purchase.

He said the approach pioneered by US company Pfizer, which this year set up a \$100m disease management programme with HMO Valhalla, was a good model.

Zeneca has already signed three preliminary contracts with HMOs. The work they will undertake, under a system called capitation, is designed to "share the risk in healthcare," said Mr Barnes.

Under the system a company receives a flat fee for treatment per head of population rather than a per treatment payment.

Butte issues amendment to 1993 accounts

By Jim Kelly, Accountancy Correspondent

Butte Mining, the London-listed company whose main activity is pursuing US lawsuits, has amended its accounts after discussions with the Financial Reporting Review Panel - the accounts watchdog.

Butte, which is seeking \$1bn (£800m) in damages from former managers and promoters, has issued a supplementary note relating to its accounts for the year to June 1993 in its 1994 report and accounts.

The panel's statement, the 24th it has issued as a watchdog since its foundation in 1991, expresses concern that a bank overdraft of £750,000 was shown in the balance sheet as falling due after more than one year.

In Butte's opinion the overdraft could not be shown as falling due within a year and still give a true and fair view of the company's affairs.

It claimed the overdraft payment was entangled with a Montana law suit and could not fall due within a year. The company, however, did not want to "become party to a test case".

On two other counts the company had invoked the true and fair override with respect to the cash flow statement but the panel considered the treatment incorrect.

It noted that a £560,000 sale of an equity investment was not shown in the cash flow statement but was "incorrectly" treated as a cash equivalent. Also, a repayment loan of £500,000 was not shown because it was "incorrectly" treated as a cash equivalent.

Recovery continues at Frederick Cooper

By Peter Pearce

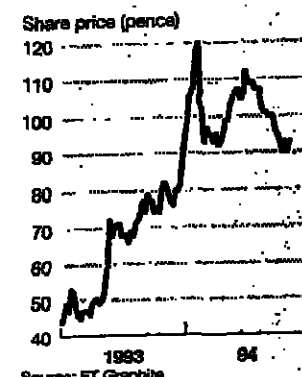
Frederick Cooper, the architectural hardware, metal finishing and electrical products group, continued its recovery with a 30 per cent advance in annual pre-tax profits from "underlying operations" to £5.45m.

On an FRS 3 basis the rise was greater at 53 per cent to £6.31m (£4.12m) for the year to July 31. Turnover grew to £89.1m (£84.3m).

The focusing on core businesses continued with the sale of Cooper Handling in June for £1.46m. This resulted in a £96,000 exceptional profit. Mr Ed Kirk, chairman, said the surplus gave a distorted impression of group progress.

Since the year-end, Futers (London), an electrical component company was sold for £2.75m. Three businesses in the electrical products division remained, generating only £7m of turnover. He expected to dispose of at least one within the next 12 months.

Frederick Cooper



In spite of the profits rise and a 3 per cent increase in first-quarter sales in the current year, Mr Kirk remained cautious on prospects.

He said the UK economy remained fragile and the architectural products side, which makes locks and other door and window fittings, catered for the "back end of the construction market". Also, in the past 12 months the price of alu-

minium had risen 30 per cent; steel had risen 6 per cent since the start of the year and would rise another 6 per cent in January; and European polymer prices had risen 10 per cent. Cooper was now also sourcing from Brazil and altering its plastic compounds "mix" to help circumvent this.

In the architectural hardware division, profits jumped to £1.58m (£570,000) on turnover up slightly at £50.1m (£49.6m). In metal finishing, profits were £3.13m (£3.2m) on turnover of £24.4m (£20m). Organic growth for the group would come in the US metal finishing side, said Mr Kirk, with any acquisitions also in that area.

At the year-end borrowings were £7m; they were now less than £5m and by July 1995 were expected to be about £2.5m.

Basic earnings on underlying operations were 6p (3.5p) and under FRS 3 8.2p (3.4p). The final dividend is lifted to 1.7p (1.5p) for a total of 2.5p (2.2p).

BS attacks continental subsidies

By Andrew Bolger

British Steel has said that it is being put off from investing in the UK and the rest of Europe by the subsidies allowed to competitors on the continent.

Mr Brian Moffatt, chairman and chief executive, told a Commons trade and industry committee that these subsidies would undermine British Steel's profitability as UK economic growth slowed.

He said: "To take on companies whose losses are subsidised is something we are not capable of doing."

Mr Moffatt told MPs that if these subsidies continued, his board felt that there were much more attractive areas in which to invest. He cited the group's recent decision to build a 297m mini-mill at Tuscaloosa Steel, its Alabama subsidiary.

British Steel, Europe's sec-

ond largest producer after France's state-owned Usinor Sacilor, has strongly opposed aid to public companies to help them restructure.

It has even launched an action against the European Commission at the European Court of Justice, accusing it of breaking its own rules on subsidies.

An EC plan to restructure the industry collapsed last week after steel companies did not come up with the cuts in

capacity required for the project to proceed.

Mr Moffatt also said the future for the industry was bleak.

"The economy is moving forward at the moment, but when the next slowdown comes, if the subsidy argument is not put to bed now, it will be back with us in a few years' time."

This argument was echoed by Mr Ian Blakey, director-general of the British iron and

Steel Producers Association.

He said: "We must be storing up trouble for the next recession. We must stamp out subsidies and let the market take its course and it will take its course during the next recession."

Mr Moffatt urged the UK government, which cut British Steel off from aid in 1985, to act as a referee on state aid in the European Union and be consistent about its stance on the issue.

London Fiduciary £6m gold deal

London Fiduciary Trust, which former England cricketer Mr Phil Edmonds aims to build into a substantial gold producer, has acquired a heap-leach gold project in the Philippines from Run-runo Mining Corporation for £6m.

The purchase is to be satisfied by the issue of LFT shares at 5p each, compared with yesterday's market price of 2 1/4p-3 1/4p. The vendors have agreed to retain these shares for at least a

year from the date of issue.

LFT said an independent appraisal of the Run-runo project suggests it has reserves for annual production of 50,000 troy ounces of gold for five years at an estimated production cost of less than US\$200 an ounce.

The independent consultants, London Mining and Metal Consultants, placed a net present value of \$25.46m on the project.

Jermyn declines to £55,000

Jermyn Investment, the property investor, reported pre-tax profits for the half year to June 30 lower at £55,000, against £77,000. Net property income rose from £371,000 to £380,000.

The figures related to the period before the recent £12.5m placing and open offer and acquisitions as part of the company's expansion plans. It said yesterday that a number of transactions were being considered which might lead to further purchases before the year-end.

Earnings per share were 1.8p (2.75p) or 1.19p (1.83p) fully diluted. The £300,000 arrears on the preference shares have been declared and the payment of a dividend, which has not been paid since 1991, will be considered at the year-end.

Amstrad

Mr Alan Sugar, chairman of Amstrad, has increased his stake by 4,400 ordinary shares, under the distribution of the estate of the late Mrs Fay Sugar, his mother. Mr Sugar is now interested in 205.6m shares (35.4 per cent).

Fleming Chinese Inv

A fall in China related stocks led to a decline in net asset value at the Fleming Chinese Investment Trust, down to 84.95p on the September 30 year end.

This was 12.6 per cent below the post launch net asset value on October 19 1993.

Available revenue came out at £487,000 for earnings per share of 0.81p. A final dividend of 0.5p is recommended.

Celtic Gold

Celtic Gold, the Irish mineral exploration company, reported pre-tax losses of £217,900 (£215,000) for the half year to June 30, against £202,002 for the previous 12 months.

The result included an exceptional charge of £212,911 (£208,493) relating to the costs of a placing and the sale of Clare Calcite, together with expenses incurred in connec-

NEWS DIGEST

tion with the unsuccessful offer for Coyle Hamilton, the insurance broker.

The directors said they were examining further possible opportunities in the financial services sector and expected to report to shareholders on their discussions shortly.

Claddagh Gold sold its 54 per cent stake in Celtic to English Trust during the period, since when the shares have been suspended.

BCE acquisition

BCE Holdings, the USM-traded snooker and pool products distributor, has named Software Creations (Holdings) as the company it is to acquire along with Rage Software for £14m.

The acquisition of the two companies will take BCE into the electronic games industry and more than treble its size.

Hall Engineering

Hall Engineering's enhanced scrip dividend has been accepted in respect of 23.6m shares or 77.9 per cent of the issued share capital. Of those Kleinwort Benson's cash offer has been accepted in respect of 42 per cent or 9.84m shares.

Broadgate Inv Trust

Net asset value per share at Broadgate Investment Trust fell from 123.62p to 119.73p over the 12 months to September 30. The fully diluted figures showed a fall from 119.69p to 116.44p.

Net revenue for the year was £89,574, compared with £108,040 for the previous 14 months from its listing. Earnings per share were 1.79p (2.16p) and a single final dividend of 1.6p (1.8p) is proposed.

RPS £1.9m buy

RPS, the USM-quoted environmental consultancy, is to acquire three subsidiaries of MTS International for £1.9m. The acquisition will be funded by a placing and open offer of 2.92m shares at 65p each.

Qualifying shareholders will be invited to apply for shares on a 1-for-4.1535 basis.

The three companies, Thomson MTS in Milton Keynes, NOHS in Manchester and Environmental Monitoring (Scotland), comprise the environmental section of MTS International, which is part of

the metal technology division of Bodycote International. Their combined operating profits for 1993 were £463,000.

Mezzanine Capital

The net asset value per capital share of Mezzanine Capital and Income Trust 2001 stood at 312.7p at the September 30 interim stage, against 295.3p six months earlier and 273.4p a year ago.

Available revenue for the period amounted to £1.33m (£1.56m) giving earnings of 7.33p (6.96p) per income share. The interim dividend is raised to 7p (6.5p).

The trust recently sold its investment in Polaris Pools Systems and two US investment companies for £25.7m (£16.2m). It has also invested some £14.5m in securities of NRE Holdings, operator of 80 Burger King outlets in the US.

Fleming raises £25m

Fleming has so far raised £25m during the placing stage for its Natural Resources investment trust, which will specialise in companies involved in extracting, cultivating and processing commodities worldwide.

A public offer to raise up to a further £25m closes on November 23.

The trust will have a life of between two and a half and five years, to make the best use of the commodities cycle. A commodities investment trust launched last month by BZW raised £78m from a placing and public offer.

Dakota agrees offer

Dakota Group, the USM-quoted maker of packaging products, has recommended an offer made by CBW, a company controlled by Mr Colum Kelleher, Mr William Carlisle and Mr Brendan Mowles, all executive directors of Dakota.

CBW has received acceptances totalling 92.58 per cent of Dakota's issued shares.

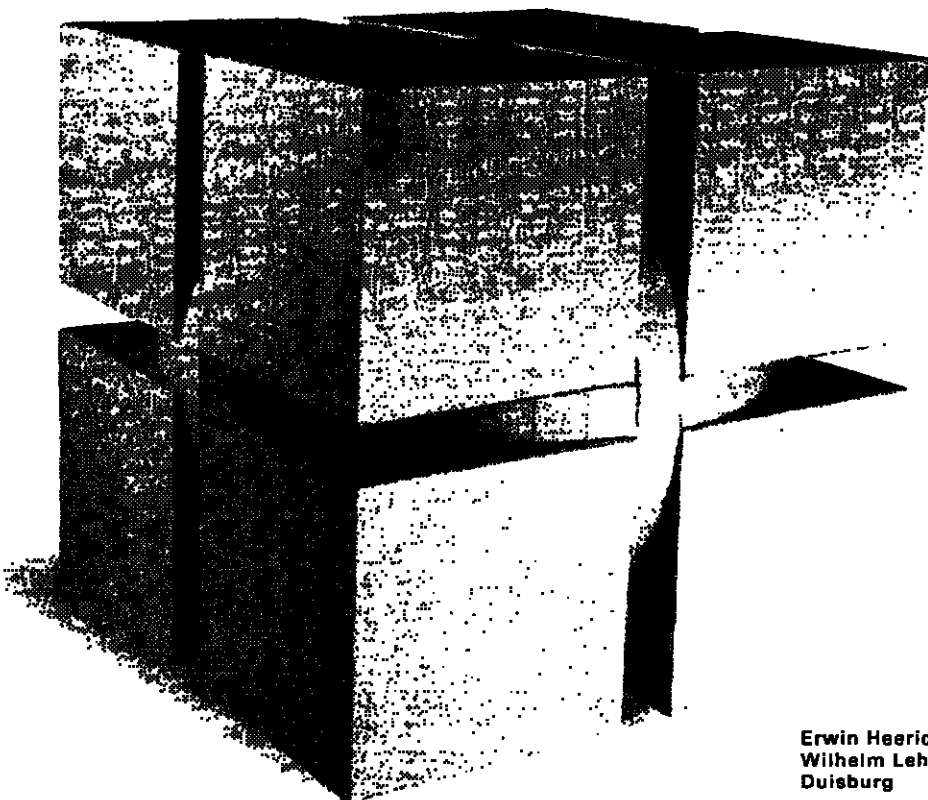
Capital Gear Trust

Capital Gearing Trust reported net asset value per share down at 510.1p at October 5, against 522.5p six months earlier.

Net revenue for the half year to October 5 was £5,972 compared with losses of £14,873, for earnings per share of 0.33p (losses 1.34p).

FRANKFURTER HYPO

The Pfandbrief ■ Eight strong arguments for our product



Erwin Heerich, no name, Wilhelm Lehmbruck Museum Duisburg

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Société d'Investissement à Capital Variable
Kansallis House, Place de l'Etoile
L-1021 Luxembourg

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of the Shareholders of Fidelity Global Industries Fund, a société d'investissement à capital variable organised under the laws of the Grand Duchy of Luxembourg ("the Fund"), will be held at the registered office of the Fund, Kansallis House, Place de l'Etoile, Luxembourg, at 11:00 a.m. on November 24, 1994, specifically, but without limitation, for the following purposes:

1. Presentation of the Report of the Board of Directors.
2. Presentation of the Report of the Auditor.
3. Approval of the balance sheet and income statement for the fiscal year ended July 31, 1994.
4. Discharge of the Board of Directors and the Auditor.
5. Election of six (6) Directors, specifically the re-election of Messrs. Edward C. Johnson 3rd, Barry R. J. Bateman, Charles T. M. Collis, Sir Charles A. Fraser, Jean Hamillius and H.F. van den Hoven, being all of the present Directors.
6. Election of the Auditor, specifically the election of Coopers & Lybrand, Luxembourg.
7. Consideration of such other business as may properly come before the meeting.

Approval of items 1 through 7 of the agenda will require the affirmative vote of a majority of the shares present or represented at the meeting with a minimum number of shares present or represented in order for a quorum to be present.

Subject to the limitations imposed by the Articles of Incorporation of the Fund with regard to ownership of shares which constitute in the aggregate more than three percent (3%) of the outstanding shares, each share is entitled to one vote. A shareholder may act at any meeting by proxy.

Dated: 24th October 1994

BY ORDER OF THE BOARD OF DIRECTORS

Fidelity Investments

مكتبة النور

Bellway's 67% rise beats City forecasts

By Richard Wolfe

Shares in Bellway rose 14p to 206p yesterday as the house-builder outstripped City forecasts to announce a 67 per cent increase in pre-tax profits for the year to July 31.

Pre-tax profits rose to £28m (£18.7m) on turnover up 37 per cent at £201.3m (£147.3m). Operating margins were lifted from 10 to 13.5 per cent.

Mr Kenneth Bell, chairman, said the company's performance was the result of "our policy of controlled expansion of the management, the organisation and the land portfolio throughout the recession".

The middle-market group sold 3,010 homes, a rise of 31 per cent, at an average price which rose 6 per cent to \$65,000.

Mr Alan Robson, finance director, said: "Our sales are 20 per cent up in the current year. We have been expanding over the last four years by about 25 per cent per annum and I think there is good momentum in the market at the moment."

He added that the company expected prices and margins to remain static this year.

Cash fell from £44.3m to £4.2m as the group purchased £100m of land at low prices last year. Year-end net cash stood at £1m (£44m).

Bellway has some 12,000 plots with planning permission, representing more than three years' building. The company further committed itself to £15m of land in the first three months of the year.

The group won £15m of City Grant awards to build 649 units in Manchester and 479 units in London. The latter is part of a long-term development to build 5,500 houses in Barking.

Earnings per share rose 63 per cent to 17.5p (10.8p). The board proposes a final dividend of 4.8p to make a total of 7p, compared with 6p last year.

COMMENT

Bellway seems to have weathered the recession with a healthy balance sheet and strong sales. Yesterday's figures owe much to the group's shrewd purchasing policy, which should allow consistent growth this year. It is now expected to gear up to about 30 per cent to maintain its purchasing programme. Pre-tax profits are forecast at £32.5m, which gives a fairly low p/e of 10. Given the group's steady performance in recent years and growth prospects, this looks like an undeserved discount to the sector.

Welsh Water to buy 20% of Czech utility

By Vincent Boland in Prague

Welsh Water has agreed to buy a 20 per cent stake in the biggest water and waste disposal operator in the Czech republic.

The UK utility is set to pay the Czech privatisation ministry Kcs198.6m (£4.45m) for the stake in Severočeská Vodovody a Kanalizace, marking its first investment in central Europe.

Although no contract has been signed and the agreement must be approved by the Czech government, Mr Graham Hawker, chief executive of Welsh Water, said negotiations were "at the formalities stage". Officials of SCVK were not available for comment yesterday.

The two companies have been in negotiations for nearly two years.

Mr Hawker said Welsh Water intended to take an active management role in SCVK. It was also seeking to buy further shares from local investors who hold 58 per cent of SCVK, to allow it "to influence management decisions."

He ruled out taking a majority stake in the immediate future.

SCVK was privatised in the Czech government's second wave of coupon privatisations this year, and is expected to be listed on the Prague bourse next February when second-wave shares are released to investors.

It provides water and waste disposal services to about 1m customers in northern Bohemia, and made profits of Kcs1.2bn last year on turnover of Kcs1.2bn. Welsh Water, which has nearly 3m customers in Wales and western England, made pre-tax profits of £144.2m on turnover of £512.1m last year.

Mr Hawker said Welsh Water had identified the Czech republic as a key market in central Europe. The investment in SCVK could lead to further expansion in the region, but he said Welsh Water had "no plans other than to consolidate in the Czech republic" at present.

The preferred route to recovery

British Coal's cast-off could be Anglo's salvation, reports Peggy Hollinger

Anglo United shareholders could not believe their eyes when they read their newspapers on Tuesday morning.

The company they have supported through two debt restructurings and a rescue rights issue had been nominated by British Coal and its adviser Price Waterhouse as one of four preferred bidders for its smokeless fuels subsidiary, Coal Products.

If it succeeds, Anglo will certainly have to restructure the debt yet again and call on shareholders to finance the acquisition. It is thought Anglo has offered between \$50m and \$90m in the initial bidding round for Coal Products, all of which will have to come from shareholders.

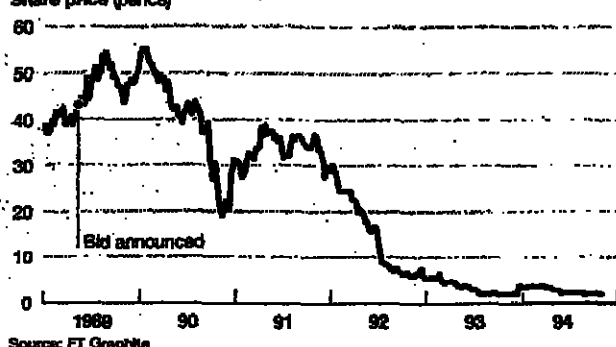
On the surface, Anglo's preferred status appears surprising. The company has incurred losses for the past two years and has negative shareholders' funds of about £146m.

In the words of one Anglo executive, gearing is out in the stratosphere. Debt remains a weighty \$90m and no dividends are expected to be paid until borrowing ratios return to earth. The shares were last trading at about 2p.

Nor does the company's history provide much comfort. It made headlines in the late 1980s with its \$500m hostile

Anglo United

Share price (pence)



Source: FT Graphite

takeover of Coalite, one of the UK's last great leveraged bids.

The bid was the brainchild of Mr David McLellan, Anglo's former chairman, whose Coal Developments company is also one of the preferred bidders for Coal Products.

He intended to pay off the debt incurred by the Coalite takeover by selling off the target's peripheral businesses.

Unfortunately, recession and problems encountered in selling assets hindered his plans, and by 1991 the company was forced to defer loan repayments.

Over the next two years, Anglo launched a £35m rescue rights issue to pay off a bridging loan and two debt restructurings.

The most recent, completed last year, left the banks owning half the company. Hongkong and Shanghai Banking Corporation is the largest shareholder with 40 per cent.

The banks have been crucial to Anglo's success in passing the initial tests in the bid for Coal Products. They are understood to have given assurances of support for the required equity funding and debt restructuring.

It is likely that for Anglo to become the sole preferred bidder, it will have to have the debt restructuring and plans for a rights issue ready to go by the end of the year.

The restructuring is likely to be a complex issue. While win-

ning Coal Products could go some way to reducing the deficit in shareholders' funds, a substantial debt for equity swap is almost certain to be on the cards yet again.

Anglo refuses to comment on its bid or the comfort it might have received from shareholders. However, winning Coal Products could give it the vital breathing space it needs to find its feet.

Coalite is its most profitable business. Yet the smokeless fuel market is declining as consumers switch to gas-fired central heating. Still, the business is highly cash generative and the synergies with Coal Products could be substantial.

Anglo's need to squeeze value out of a declining market, if it is to survive, could give it a substantial edge in the bidding. Shareholders might, perhaps, be motivated to support a higher bid as a result.

Ordinary shareholders do not appear to care why Anglo has been included in the shortlist. They are delighted. "The key point is that the banks did not just say let's squeeze every last drop out of the company until it's dry and walk away," said one investor. "They have been prepared to work their way out of the situation, give the company time to breathe and take it forward. We are very happy."



Anthony Newman

Food price inflation rise feared

Mr David Sainsbury, above, chairman of J Sainsbury, the UK's biggest food retailer, warned that levels of food price inflation were likely to rise slightly in the coming months, although price competition would remain intense.

deflation of about 0.6 per cent in the first half of the year largely as a result of its "Essential for Essentials" price-cutting campaign, involving permanent price reductions on own-label goods. So far in the second half, sales inflation was running at 0.2 per cent, and the rate was likely to increase slightly as

Sainsbury reached the anniversary of the "Essentials" campaign.

Mr Sainsbury said the campaign had "effectively led down prices and gross margins" for basic products "throughout the food retail sector", putting pressure both on supermarket competitors and on discount chains.

B.A.T INDUSTRIES

Pre-tax profit up 10%

Nine months unaudited results to 30 September 1994

REVENUE	£18,521m	+2%
PRE-TAX PROFIT	£1,497m	+10%
EARNINGS PER SHARE	30.8p	+6%

- Tobacco trading profit of £920 million rose by 13 per cent, excluding the £135 million gain on the brand exchange in 1993. Group cigarette volumes rose by 5 per cent, with particularly strong growth in exports.
- Financial services trading profit from continuing operations rose by 3 per cent to £674 million, with the general business contributing an improved £384 million and the life and investment business higher at £290 million.
- The US Federal Trade Commission's 27 October decision to oppose the acquisition of American Tobacco is subject to a judicial process, which should be completed by the first quarter of 1995. B.A.T Industries remains convinced that the transaction would actually enhance competition.
- "In terms of the Group as a whole, I am confident that, as I said at our AGM in May, there should be a worthwhile increase in our pre-tax profit for the year, enabling us to maintain our progressive dividend policy."

Sir Patrick Sheehy, Chairman

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British partner is first to share in Ukraine oil find

By Matthew Kaminski in Kiev and Robert Gorzine in London

The first commercial oil production by a western joint venture in Ukraine is to begin later this month.

The Poltava Petroleum Company, a UK-Ukrainian joint venture, yesterday said it had successfully tested its first well in the Novo-Nikolaevskoye fields in north-eastern Ukraine.

"The preliminary results are very encouraging, well in excess of what had been expected," said Mr David Davis, the company's general director in Poltava, 500km east of Kiev.

JCKX Oil and Gas, the UK partner, said the well produced 2.175 barrels of oil a day and 2m cubic feet of natural gas.

The company believed the three fields that made up Novo-Nikolaevskoye could hold as much as 60m barrels of oil and 1,100bn cubic feet of gas.

Peak daily production could approach 30,000 barrels of oil and 200m cubic feet of gas, it said.

Full-scale development of the field would cost about \$50m, and would mark a small step forward in Ukraine's efforts to wean itself of dependence on Russian oil imports and exploit natural resources largely undeveloped in the Soviet era.

The former Soviet republic now depends almost exclusively on Russian oil and gas supplies - a sensitive issue in often strained Russo-Ukrainian relations.

JCKX, which has so far invested \$15m in Poltava, has a 49 per cent stake in the project. The rest is split between Ukrainian partners, the giant state oil and gas concern, and Ukraine's State Property Committee, which directs and oversees foreign investment in state companies.

Ukraine has the option to buy 100 per cent of the oil and gas produced at world prices. But half of the revenues from domestic sales have to be converted to Ukrainian coupons.

Mr David Robson, JCKX managing director, said the "forced conversion to coupons doesn't concern us that much" because the company would have significant coupon costs during the two and a half years or so that would be required to drill the 58 wells needed to fully drain the fields.

Any hard currency exports from the development would not be subject to the forced coupon conversion. JCKX's other Ukrainian venture, the Crimean Petroleum Company, is now assessing prospects in the Black Sea off the Crimean peninsula. It expected to begin exploratory drilling late next year, according to Mr Robson.

Cuba struggles to revive sugar sector

Pascal Fletcher reports on problems dogging the mainstay of the country's economy

Cuba's sugar harvest, mainstay of the island's economy, could soon begin to level out after its recent nosedive, but a return to cruising altitude looks a long way off.

Just five years ago output was running at a comfortable 8m tonnes a year. But then it went into a tailspin. The crop fell to a historic low of 4m tonnes in 1993-94 from 4.2m tonnes in 1992-93 and 7m tonnes the previous year.

This represented lost export earnings over two harvests of \$1bn, a heavy blow for a sugar-dominated, recession-hit economy whose total export revenue in 1993 was an estimated \$1.7 bn.

Faced with continuing severe input shortages and a reduced level of harvestable cane, the best Cuba can hope for from the 1994-95 season is to slow the decline in its leading export industry. If it can do this, the island may be able to lay some foundations for a future recovery. But it will be a hard slog.

Sugar market analysts, such as London trade house E.D. & F. Man, have already predicted that Cuban output will continue to fall in 1994-95. Even the Cuban authorities,

normally loath to make any public pre-harvest forecasts, are signalling that they expect a crop as low as or lower than last year.

"This is not a time for spectacular results measured in large volumes of sugar," the official workers' daily *Trabajadores* said in an October 10 editorial.

"Sugar production suffers from a syndrome of cycles, either good or bad... if you had a bad previous harvest, recovery is difficult," said Mr Juan Triana Cordova, deputy director of Havana University's Centre for Studies on the Cuban Economy.

It was the sudden collapse after 1990 of crucial Soviet supplies of fuel, fertiliser, herbicides and spares that knocked Cuban sugar production off course. Recent harvests have also been buffeted by unseasonal bad weather and slowed by declining efficiency.

The antidote proposed by Mr Nelson Torres, Cuba's minister for sugar, is a short, sharp and above all efficient 1994-95 harvest.

This year's campaign, if it starts this month as usual, will not be allowed to extend beyond April. In another change of strategy, all of

Cuba's more than 150 mills will be required to join the harvest to maximise production. Last season, more than a dozen below-par mills did not operate, with the result that their machinery was "cannibalised" for other uses and their work forces dispersed.

The over-extended 1993-94 harvest, which lasted well beyond May, cut into growing cane reserves and delayed field cultivation and mill repairs. Mill managers, struggling to meet pre-set production targets and to compensate for industrial breakdowns and inefficiency, harvested cane that could have been left for the coming season.

Gramma, the official Communist Party newspaper, said in a September 2 article: "There is going to be once again - it's no secret - a serious shortage of cane." That echoed an August E.D. & F. Man report warning that the protracted 1993-94 campaign, continuing input shortages and reports of delays in the planting programme meant that "further degradation of [Cuba's] sugar production cannot be eliminated".

As the start of the harvest approaches, sugar workers

have been the target of a blitz of official criticism. State media have accused them of ducking out of eight-hour work schedules, using poor quality seed and failing to weed growing cane. "Why is the cane in such poor state... so full of weeds?" state-run Radio Rebelde asked back in September.

Especially targeted for criticism were the cane growing co-operatives, the so-called basic units of co-operative production (UBPCs), created in September, 1993 as part of a decentralising reform of Cuba's state-run farming system. "Why have these UBPCs still not been able to contain and reverse the sharp collapse of the nation's greatest resource?" Mr Trabajadores said six weeks ago.

Reasons cited for poor productivity in the cane co-operatives were the lack of incentives, delays in obtaining promised benefits like new housing and even shortages of work clothes like boots. Government officials were studying the possibility of introducing greater material incentives for sugar workers - whether in local or hard currency or in access to consumer goods like those already available for

workers in Cuba's tourist industry.

To offset harvest manpower shortages, Cuba's official trade union organisation, the CTC, is preparing to mobilise 61,000 cane cutters across the island, 25,000 more than last year. This manual cutting force will also help to compensate for cutbacks in machine harvesting resulting from shortages of fuel, lubricants and spare parts.

On the commercial front, Cuba has maintained a hazy silence over the state of its strategic sugar trade contracts with Russia and China. Traders in London and New York reported as early as June that the country might have problems meeting all of its export commitments because of the second consecutive low harvest. The Cubans were expected to have sought to roll over many of their commitments into the next crop period, a tactic widely used even when the island was producing harvests of about 8m tonnes.

The roll-over mechanism is considerably less drastic than the *force majeure* declared by Cuba in June, 1993, when torrential rains devastated an already flagging harvest.

Jamaica sells banana farms

By Camille James in Kingston

The Jamaican government has divested two of the island's largest banana farms to Fyffes of the UK and Producers Group, a local company. The companies, which market all of Jamaica's export bananas, paid US\$8m for a 95 per cent interest in the two farms, with Fyffes being the minority partner.

The government is expecting improved production of bananas with the divestment. Mr Seymour Mullings, the agriculture minister, said exports of the fruit next year should reach 105,000 tonnes, which is the island's quota to the European Union. This year's exports are projected at 85,000 tonnes.

Meanwhile, the marketing of bananas produced in the Windward Islands is being restructured with the creation of a new marketing company.

UK apple growers hope to turn back French tide

By Alison Maitland

A group of English apple growers has decided to take on the powerful French Golden Delicious by producing its own, home-grown variety. "Le Crunch", which has been heavily promoted in Britain and tends to undercut English varieties on price, has an estimated 20 per cent share of the market.

But about 24 per cent of consumers feel chauvinistic enough about apples to avoid buying French varieties, while 57 per cent say they prefer to buy English apples, according to an opinion poll by Research Surveys of Great Britain.

So the English Fruit Company, a Kent-based co-operative of 300 growers, has developed an English Golden Delicious, which is from the same family as the French variety but has a different cell structure. This makes it swee-

ter, smaller and crisper. It is also slightly greener than the yellow French apple.

"We're trying to develop something which has the edge on flavour," said Mr Michael Green, the company's sales director. "I don't think we'll ever have the French market per hectare, because we don't have the climate to cope with that."

A quarter of a million 40lb cases of the new apples are being promoted by a superstore chain, Asda, for two weeks this month. If they prove a success, the fruit growers plan to market the Golden Delicious on a wider scale next year.

English apple growers complain their traditional varieties, such as the Cox, are being forced off the market by an influx of apples from low-cost producers such as Chile and South Africa and from a glut of apples in the EU.

Metals absorb profit-taking

BASE METALS enjoyed another active day at the London Metal Exchange, with all markets leaping to new highs and mostly absorbing late profit-taking, traders said.

At the London Commodity Exchange, white SUGAR futures registered sharp gains, buoyed by talk of renewed Chinese buying and expectations of fewer Russian interest. But COFFEE prices closed sharply lower on trade and commission house selling and liquidation of long positions. The January contract was down \$5 at \$3.360 a tonne. Compiled from Reuters

Palladium thrives on phone connection

By Kenneth Gooding, Mining Correspondent

Booming world-wide demand for mobile telephones has helped the price of palladium to double in the past year. The precious metal is needed for the multi-layer ceramic capacitors used in these phones, as well as in a wide variety of other electronic equipment such as personal computers and the new wide-screen televisions.

Yesterday in London palladium reached \$180.35 cents a troy ounce at one stage, its highest level for five years. The steady rise over the past

12 months was spurred by genuine demand because the palladium market was not liquid enough for speculators to take much interest, said Mr Andy Smith, analyst at Union Bank of Switzerland.

Apart from demand from the electronics industry, which was battling to keep up with soaring sales of mobile telephones, car makers were using more palladium in automotive anti-pollution catalysts, where it was being substituted for more expensive platinum.

According to Johnson Matthey, the world's largest platinum group metals marketing organisation, last year about

4.13m ounces of palladium was produced. Russia accounted for 2.3m ounces, South Africa 1.4m, while the rest was produced by North America.

Mr Smith said it was widely assumed in the market that the Russians would sell heavily from stocks once palladium reached about \$150 an ounce in order to keep the price down. They feared other metals would be substituted by the Japanese electronics industry once \$150 was reached. He said the recent weakening of the US dollar meant that the yen price of the metal was "not unbearably high". Nevertheless, Russia

remained the "wild card" in the market as it must be assumed that its stocks were high, given that Russia was mainly used in Russia for military purposes and military spending there had dropped dramatically.

Another analyst insisted that there was no substance in rumours that the Russians were withholding palladium to keep prices rising. There were shortages of palladium in the preferred form - the powder used by the electronics and autocatalyst industry - but the market had enough ingot, or solid, palladium, the only type supplied by Russia.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Ammetals Metal Trading)

ALUMINIUM, 99.7 PURITY (% per tonne)

Cash 3 mths

Close 1837-8 1899-0

Previous 1835-6 1895-6

High/Low 1835-6 1895-6

AM Official 1835-6 1895-6

Kerb close 1835-6 1895-6

Open Int. 259,998

Total daily turnover 75,443

ALUMINIUM ALLOY (% per tonne)

Close 1840-50 1875-60

Previous 1835-40 1870-70

High/Low 1835-40 1870-70

AM Official 1835-40 1870-70

Kerb close 1835-40 1870-70

Open Int. 2,807

Total daily turnover 378

LEAD (% per tonne)

Close 607-8 603-4

Previous 601-5-25 607-8

High/Low 601-5-25 607-8

AM Official 601-5-25 607-8

Kerb close 601-5-25 607-8

Open Int. 43,876

Total daily turnover 11,958

NICKEL (% per tonne)

Close 7430-40 7550-60

Previous 7415-25 7550-60

High/Low 7415-25 7550-60

AM Official 7415-25 7550-60

Kerb close 7415-25 7550-60

Open Int. 67,287

Total daily turnover 11,287

TIN (% per tonne)

Close 6195-45 6230-5

Previous 6180-50 6230-5

High/Low 6180-50 6230-5

AM Official 6180-50 6230-5

Kerb close 6180-50 6230-5

Open Int. 12,298

Total daily turnover 9,570

ZINC, special high grade (% per tonne)

Close 1140-5-5 1170-1

Previous 1135-6 1167-8

High/Low 1135-6 1167-8

AM Official 1135-6 1167-8

Kerb close 1135-6 1167-8

Open Int. 105,875

Total daily turnover 19,741

COPPER, grade A (% per tonne)

Close 2712-4 2801-3

Previous 2712-3 2801-3

High/Low 2712-3 2801-3

AM Official 2712-3 2801-3

Kerb close 2712-3 2801-3

Open Int. 221,202

Total daily turnover 71,892

LINE AM Official 2/5 rate, 1.8357

Line Closing 2/5 rate, 1.8336

Spot 1.5346 3 mths 1.5353 6 mths 1.8299 9 mths 1.8294

HIGH GRADE COPPER (COMEX)

Close 127.50 127.50 124.70 121

Dec 128.50 127.50 124.70 121

Jan 125.50 127.50 124.70 121

Feb 124.70 127.50 124.70 121

Mar 123.70 127.50 124.70 121

Apr 122.45 127.50 124.70 121

May 122.45 127.50 124.70 121

Jun 122.45 127.50 124.70 121

Jul 122.45 127.50 124.70 121

Aug 122.45 127.50 124.70 121

Sep 122.45 127.50 124.70 121

Oct 122.45 127.50 124.70 121

Nov 122.45 127.50 124.70 121

Dec 122.45 127.50 124.70 121

Jan 122.45 127.50 124.70 121

Feb 122.45 127.50 124.70 121

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Jul 122.45 127.50 124.70 121

Aug 122.45 127.50 124.70 121

Sep 122.45 127.50 124.70 121

Oct 122.45 127.50 124.70 121

Nov 122.45 127.50 124.70 121

Dec 122.45 127.50 124.70 121

Precious Metals continued

GOLD COMEX (100 Troy oz, \$/troy oz)

Close 384.2 -0.1 -

Previous 384.2 -0.1 -

High/Low 384.2 -0.1 -

AM Official 384.2 -0.1 -

Kerb close 384.2 -0.1 -

Open Int. 14

Total 23,760

PLATINUM NYMEX (50 Troy oz, \$/troy oz)

Close 421.5 -0.1 422.8

Previous 421.5 -0.1 422.8

High/Low 421.5 -0.1 422.8

AM Official 421.5 -0.1 422.8

Kerb close 421.5 -0.1 422.8

Open Int. 4130

Total 21,290

PALLADIUM NYMEX (100 Troy oz, \$/troy oz)

Close 162.85 -0.10 164.00

Previous 162.85 -0.10 164.00

High/Low 162.85 -0.10 164.00

AM Official 162.85 -0.10 164.00

Kerb close 162.85 -0.10 164.00

Open Int. 2,530

Total 2,530

SILVER COMEX (100 Troy oz, \$/troy oz)

Close 531.8 -0.1 -

Previous 531.8 -0.1 -

High/Low 531.8 -0.1 -

AM Official 531.8 -0.1 -

Kerb close 531.8 -0.1 -

Open Int. 7,801

Total 7,801

ENERGY

CRUDE OIL NYMEX (42,000 US gals, \$/barrel)

Close 16.55 -0.13 16.75

Previous 16.55 -0.13 16.75

High/Low 16.55 -0.13 16.75

AM Official 16.55 -0.13 16.75

Kerb close 16.55 -0.13 16.75

Open Int. 55,141

Total 55,141

CRUDE OIL IPE (\$/barrel)

Close 17.27 -0.06 17.45

Previous 17.27 -0.06 17.45

BANKS

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

First Prime Air Fm	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	15
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[illegible]**ELECTRONIC & ELECTRICAL EQPT - Cont. EXTRA**

Product	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	3003	3004	3005	3006	3007	3008	3009	3010	3011	3012	3013	3014	3015	3016	3017	3018	3019	3020	3021	3022	3023	3024	3025	3026	3027	3028	3029	3030	3031	3032	3033	3034	3035	3036	3037	3038	3039	3040	3041	3042	3043	3044	3045	3046	3047	3048	3049	3050	3051	3052	3053	3054	3055	3056	3057	3058	3059	3060	3061	3062	3063	3064	3065	3066	3067	3068	3069	3070	3071	3072	3073	3074	3075	3076	3077	3078	3079	3080	3081	3082	3083	3084	3085	3086	3087	3088	3089	3090	3091	3092	3093	3094	3095	3096	3097	3098	3099	3100	3101	3102	3103	3104	3105	3106	3107	3108	3109	3110	3111	3112	3113	3114	3115	3116	3117	3118	3119	3120	3121	3122	3123	3124	3125	3126	3127	3128	3129	3130	3131	3132	3133	3134	3135	3136	3137	3138	3139	3140	3141	3142	3143	3144	3145	3146	3147	3148	3149	3150	3151	3152	3153	3154	3155	3156	3157	3158	3159	3160	3161	3162	3163	3164	3165	3166	3167	3168	3169	3170	3171	3172	3173	3174	3175	3176	3177	3178	3179	3180	3181	3182	3183	3184	3185	3186	3187	3188	3189	3190	3191	3192	3193	3194	3195	3196	3197	3198	3199	3200	3201	3202	3203	3204	3205	3206	3207	3208	3209	3210	3211	3212	3213	3214	3215	3216	3217	3218	3219	3220	3221	3222	3223	3224	3225	3226	3227	3228	3229	3230	3231	3232	3233	3234	3235	3236	3237	3238	3239	3240	3241	3242	3243	3244	3245	3246	3247	3248	3249	3250	3251	3252	3253	3254	3255	3256	3257	3258	3259	3260	3261	3262	3263	3264	3265	3266	3267	3268	3269	3270	3271	3272	3273	3274	3275	3276	3277	3278	3279	3280	3281	3282	3283	3284	3285	3286	3287	3288	3289	3290	3291	3292	3293	3294	3295	3296	3297	3298	3299	3300	3301	3302	3303	3304	3305	3306	3307	3308	3309	3310	3311	3312	3313	3314	3315	3316	3317	3318	3319	3320	3321	3322	3323	3324	3325	3326	3327	3328	3329	3330	3331	3332	3333	3334	3335	3336	3337	3338	3339	3340	3341	3342	3343	3344	3345	3346	3347	3348	3349	3350	3351	3352	3353	3354
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Scantron _____ ☒ NO
Schriebe _____ ☒ YES

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6 1/2 p Net Pk	58	1	130	88
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[illegible]

Group	4	32	42	36
	355	-1	455	343

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

Eastvast Gold R	1
Flamend R	+	45

[illegible]

Western Mining	312	-2	34	314
Western Mining	373	-2	399	371

Chrysler Corp	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23
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Followup	<input type="checkbox"/>	1128	-14
2-year MVA	<input type="checkbox"/>	5713	-28

	1994	1993	1992	1991	1990
Alaska	1,110	1,110	97	97	97
Arizona	1,110	1,110	97	97	97
Arkansas	1,110	1,110	97	97	97
California	1,110	1,110	97	97	97
Colorado	1,110	1,110	97	97	97
Connecticut	1,110	1,110	97	97	97
Delaware	1,110	1,110	97	97	97
District of Columbia	1,110	1,110	97	97	97
Florida	1,110	1,110	97	97	97
Georgia	1,110	1,110	97	97	97
Hawaii	1,110	1,110	97	97	97
Idaho	1,110	1,110	97	97	97
Illinois	1,110	1,110	97	97	97
Indiana	1,110	1,110	97	97	97
Iowa	1,110	1,110	97	97	97
Kansas	1,110	1,110	97	97	97
Kentucky	1,110	1,110	97	97	97
Louisiana	1,110	1,110	97	97	97
Maine	1,110	1,110	97	97	97
Maryland	1,110	1,110	97	97	97
Massachusetts	1,110	1,110	97	97	97
Michigan	1,110	1,110	97	97	97
Minnesota	1,110	1,110	97	97	97
Mississippi	1,110	1,110	97	97	97
Missouri	1,110	1,110	97	97	97
Montana	1,110	1,110	97	97	97
Nebraska	1,110	1,110	97	97	97
Nevada	1,110	1,110	97	97	97
New Hampshire	1,110	1,110	97	97	97
New Jersey	1,110	1,110	97	97	97
New Mexico	1,110	1,110	97	97	97
New York	1,110	1,110	97	97	97
North Carolina	1,110	1,110	97	97	97
North Dakota	1,110	1,110	97	97	97
Ohio	1,110	1,110	97	97	97
Oklahoma	1,110	1,110	97	97	97
Oregon	1,110	1,110	97	97	97
Pennsylvania	1,110	1,110	97	97	97
Rhode Island	1,110	1,110	97	97	97
South Carolina	1,110	1,110	97	97	97
South Dakota	1,110	1,110	97	97	97
Tennessee	1,110	1,110	97	97	97
Texas	1,110	1,110	97	97	97
Utah	1,110	1,110	97	97	97
Vermont	1,110	1,110	97	97	97
Virginia	1,110	1,110	97	97	97
Washington	1,110	1,110	97	97	97
West Virginia	1,110	1,110	97	97	97
Wisconsin	1,110	1,110	97	97	97
Wyoming	1,110	1,110	97	97	97

HEALTH CARE - Cont.

State Income Tax	142	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141	141
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Stowfield	179	-1	15
Town (Inlet)	87		10

[illegible]

Warrants	47	77
Anglo & O'sses	420	475

[illegible]

2010	103
2011	44

Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
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Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
Algeria	198	191	47	10.4	41.1	-2.7
Algeria						

INVESTMENT TRUSTS - CONT.

[illegible]

1	Foliant Pro Ethical & 200	82	---	103
6	Unita	178	---	200

[illegible]

Cap _____	42	—	48
Jupiter Euro _____ SH	59	—	102

[illegible]

Monks	320	-2	585	4
Mooros	141		174	1

Albany, NY	1970	170	83	2,048	24.6
Albany, NY	1980	183	83	2,205	26.6
Albany, NY	1990	190	83	2,289	27.6
Albany, NY	2000	200	83	2,410	29.0
Albany, NY	2010	210	83	2,531	30.4
Albany, NY	2020	220	83	2,652	31.8
Albany, NY	2030	230	83	2,773	33.2
Albany, NY	2040	240	83	2,894	34.6
Albany, NY	2050	250	83	3,015	36.0
Albany, NY	2060	260	83	3,136	37.4
Albany, NY	2070	270	83	3,257	38.8
Albany, NY	2080	280	83	3,378	40.2
Albany, NY	2090	290	83	3,499	41.6
Albany, NY	2100	300	83	3,620	43.0
Albany, NY	2110	310	83	3,741	44.4
Albany, NY	2120	320	83	3,862	45.8
Albany, NY	2130	330	83	3,983	47.2
Albany, NY	2140	340	83	4,104	48.6
Albany, NY	2150	350	83	4,225	50.0
Albany, NY	2160	360	83	4,346	51.4
Albany, NY	2170	370	83	4,467	52.8
Albany, NY	2180	380	83	4,588	54.2
Albany, NY	2190	390	83	4,709	55.6
Albany, NY	2200	400	83	4,830	57.0
Albany, NY	2210	410	83	4,951	58.4
Albany, NY	2220	420	83	5,072	59.8
Albany, NY	2230	430	83	5,193	61.2
Albany, NY	2240	440	83	5,314	62.6
Albany, NY	2250	450	83	5,435	64.0
Albany, NY	2260	460	83	5,556	65.4
Albany, NY	2270	470	83	5,677	66.8
Albany, NY	2280	480	83	5,798	68.2
Albany, NY	2290	490	83	5,919	69.6
Albany, NY	2300	500	83	6,040	71.0
Albany, NY	2310	510	83	6,161	72.4
Albany, NY	2320	520	83	6,282	73.8
Albany, NY	2330	530	83	6,403	75.2
Albany, NY	2340	540	83	6,524	76.6
Albany, NY	2350	550	83	6,645	78.0
Albany, NY	2360	560	83	6,766	79.4
Albany, NY	2370	570	83	6,887	80.8
Albany, NY	2380	580	83	7,008	82.2
Albany, NY	2390	590	83	7,129	83.6
Albany, NY	2400	600	83	7,250	85.0
Albany, NY	2410	610	83	7,371	86.4
Albany, NY	2420	620	83	7,492	87.8
Albany, NY	2430	630	83	7,613	89.2
Albany, NY	2440	640	83	7,734	90.6
Albany, NY	2450	650	83	7,855	92.0
Albany, NY	2460	660	83	7,976	93.4
Albany, NY	2470	670	83	8,097	94.8
Albany, NY	2480	680	83	8,218	96.2
Albany, NY	2490	690	83	8,339	97.6
Albany, NY	2500	700	83	8,460	99.0
Albany, NY	2510	710	83	8,581	100.4
Albany, NY	2520	720	83	8,702	101.8
Albany, NY	2530	730	83	8,823	103.2
Albany, NY	2540	740	83	8,944	104.6
Albany, NY	2550	750	83	9,065	106.0
Albany, NY	2560	760	83	9,186	107.4
Albany, NY	2570	770	83	9,307	108.8
Albany, NY	2580	780	83	9,428	110.2
Albany, NY	2590	790	83	9,549	111.6
Albany, NY	2600	800	83	9,670	113.0
Albany, NY	2610	810	83	9,791	114.4
Albany, NY	2620	820	83	9,912	115.8
Albany, NY	2630	830	83	10,033	117.2
Albany, NY	2640	840	83	10,154	118.6
Albany, NY	2650	850	83	10,275	120.0
Albany, NY	2660	860	83	10,396	121.4
Albany, NY	2670	870	83	10,517	122.8
Albany, NY	2680	880	83	10,638	124.2
Albany, NY	2690	890	83	10,759	125.6
Albany, NY	2700	900	83	10,880	127.0
Albany, NY	2710	910	83	11,001	128.4
Albany, NY	2720	920	83	11,122	129.8
Albany, NY	2730	930	83	11,243	131.2
Albany, NY	2740	940	83	11,364	132.6
Albany, NY	2750	950	83	11,485	134.0
Albany, NY	2760	960	83	11,606	135.4
Albany, NY	2770	970	83	11,727	136.8
Albany, NY	2780	980	83	11,848	138.2
Albany, NY	2790	990	83	11,969	139.6
Albany, NY	2800	1,000	83	12,090	141.0
Albany, NY	2810	1,010	83	12,211	142.4
Albany, NY	2820	1,020	83	12,332	143.8
Albany, NY	2830	1,030	83	12,453	145.2
Albany, NY	2840	1,040	83	12,574	146.6
Albany, NY	2850	1,050	83	12,695	148.0
Albany, NY	2860	1,060	83	12,816	149.4
Albany, NY	2870	1,070	83	12,937	150.8
Albany, NY	2880	1,080	83	13,058	152.2
Albany, NY	2890	1,090	83	13,179	153.6
Albany, NY	2900	1,100	83	13,300	155.0
Albany, NY	2910	1,110	83	13,421	156.4
Albany, NY	2920	1,120	83	13,542	157.8
Albany, NY	2930	1,130	83	13,663	159.2
Albany, NY	2940	1,140	83	13,784	160.6
Albany, NY	2950	1,150	83	13,905	162.0
Albany, NY	2960	1,160	83	14,026	163.4
Albany, NY	2970	1,170	83	14,147	164.8
Albany, NY	2980	1,180	83	14,268	166.2
Albany, NY	2990	1,190	83	14,389	167.6
Albany, NY	3000	1,200	83	14,510	169.0
Albany, NY	3010	1,210	83	14,631	170.4
Albany, NY	3020	1,220	83	14,752	171.8
Albany, NY	3030	1,230	83	14,873	173.2
Albany, NY	3040	1,240	83	14,994	174.6
Albany, NY	3050	1,250	83	15,115	176.0
Albany, NY	3060	1,260	83	15,236	177.4
Albany, NY	3070	1,270	83	15,357	178.8
Albany, NY	3080	1,280	83	15,478	180.2
Albany, NY	3090	1,290	83	15,599	181.6
Albany, NY	3100	1,300	83	15,720	183.0
Albany, NY	3110	1,310	83	15,841	184.4
Albany, NY	3120	1,320	83	15,962	185.8
Albany, NY	3130	1,330	83	16,083	187.2
Albany, NY	3140	1,340	83	16,204	188.6
Albany, NY	3150	1,350	83	16,325	190.0
Albany, NY	3160	1,360	83	16,446	191.4
Albany, NY	3170	1,370	83	16,567	192.8
Albany, NY	3180	1,380	83	16,688	194.2
Albany, NY	3190	1,390	83	16,809	195.6
Albany, NY	3200	1,400	83	16,930	197.0
Albany, NY	3210	1,410	83	17,051	198.4
Albany, NY	3220	1,420	83	17,172	199.8
Albany, NY	3230	1,430	83	17,293	201.2
Albany, NY	3240	1,440	83	17,414	202.6
Albany, NY	3250	1,450	83	17,535	204.0
Albany, NY	3260	1,460	83	17,656	205.4
Albany, NY	3270	1,470	83	17,777	206.8
Albany, NY	3280	1,480	83	17,898	208.2
Albany, NY	3290	1,490	83	18,019	209.6
Albany, NY	3300	1,500	83	18,140	211.0
Albany, NY	3310	1,510	83	18,261	212.4
Albany, NY	3320	1,520	83	18,382	213.8
Albany, NY	3330	1,530	83	18,503	215.2
Albany, NY	3340	1,540	83	18,624	216.6
Albany, NY	3350	1,550	83	18,745	218.0
Albany, NY	3360	1,560	83	18,866	219.4
Albany, NY	3370	1,570	83	18,987	220.8
Albany, NY	3380	1,580	83	19,108	222.2
Albany, NY	3390	1,590	83	19,229	223.6
Albany, NY	3400	1,600	83	19,350	225.0
Albany, NY	3410	1,610	83	19,471	226.4
Albany, NY	3420	1,620	83	19,592	227.8
Albany, NY	3430	1,630	83	19,713	229.2
Albany, NY	3440	1,640	83	19,834	230.6
Albany, NY	3450	1,650	83	19,955	232.0
Albany, NY	3460	1,660	83	20,076	233.4
Albany, NY	3470	1,670	83	20,197	234.8
Albany, NY	3480	1,680	83	20,318	236.2
Albany, NY	3490	1,690	83	20,439	237.6
Albany, NY	3500	1,700	83	20,560	239.0
Albany, NY	3510	1,710	83	20,681	240.4
Albany, NY	3520	1,720	83	20,802	241.8
Albany, NY	3530	1,730	83	20,923	243.2
Albany, NY	3540	1,740	83	21,044	244.6
Albany, NY	3550	1,750	83	21,165	246.0
Albany, NY	3560	1,760	83	21,286	247.4
Albany, NY	3570	1,770	83	21,407	248.8
Albany, NY	3580	1,780	83	21,528	250.2
Albany, NY	3590	1,790	83	21,649	251.6
Albany, NY	3600	1,800	83	21,770	253.0
Albany, NY	3610	1,810	83	21,891	254.4
Albany, NY	3620	1,820	83	22,012	255.8
Albany, NY	3630	1,830	83	22,133	257.2
Albany, NY	3640	1,840	83	22,254	258.6
Albany, NY	3650	1,850	83	22,375	260.0
Albany, NY	3660	1,860	83	22,496	261.4
Albany, NY	3670	1,870	83	22,617	262.8
Albany, NY	3680	1,880	83	22,738	264.2
Albany, NY	3690	1,890	83	22,859	265.6
Albany, NY	3700	1,900	83	22,980	267.0
Albany, NY	3710	1,910	83	23,101	268.4
Albany, NY	3720	1,920	83	23,222	269.8
Albany, NY	3730	1,930	83	23,343	271.2
Albany, NY	3740	1,940	83	23,464	272.6
Albany, NY	3750	1,950	83	23,585	274.0
Albany, NY	3760	1,960	83	23,706	275.4
Albany, NY	3770	1,970	83	23,827	276.8
Albany, NY	3780	1,980	83	23,948	278.2
Albany, NY	3790	1,990	83	24,069	279.6
Albany, NY	3800	2,000	83	24,190	281.0
Albany, NY	3810	2,010	83	24,311	282.4
Albany, NY	3820	2,020	83	24,432	283.8
Albany, NY	3830	2,030	83	24,553	285.2
Albany, NY	3840	2,040	83	24,674	286.6
Albany, NY	3850	2,050	83	24,795	288.0
Albany, NY	3860	2,060	83	24,916	289.4
Albany, NY	3870	2,070	83	25,037	290.8
Albany, NY	3880	2,080	83	25,158	292.2
Albany, NY	3890	2,090	83	25,279	293.6
Albany, NY	3900	2,100	83	25,400	295.0
Albany, NY	3910	2,110	83	25,521	296.4
Albany, NY	3920	2,120	83	25,642	297.8
Albany, NY	3930	2,130	83	25,763	299.2
Albany, NY	3940	2,140	83	25,884	300.6
Albany, NY	3950	2,150	83	26,005	302.0
Albany, NY	3960	2,160	83	26,126	303.4
Albany, NY	3970	2,170	83	26,247	304.8
Albany, NY	3980	2,180	83	26,368	306.2
Albany, NY	3990	2,190	83	26,489	307.6
Albany, NY	4000	2,200	83	26,610	309.0
Albany, NY	4010	2,210	83	26,731	310.4
Albany, NY	4020	2,220	83	26,852	311.8
Albany, NY	4030	2,230	83	26,973	313.2
Albany, NY	4040	2,240	83	2	

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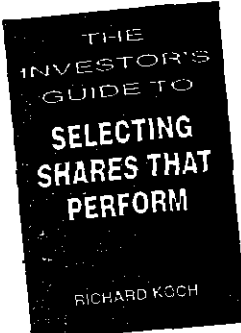
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WORLD STOCK MARKETS

EUROPE										ASIA										AFRICA									
Nov 2 / Fri										Nov 2 / Fri										Nov 2 / Fri									
Index	High	Low	Open	Close	Change	Volume	Value	Index	High	Low	Open	Close	Change	Volume	Value	Index	High	Low	Open	Close	Change	Volume	Value	Index	High	Low	Open	Close	Change
EUROPE (Nov 2 / Fri)																													
FTSE 100	4,250.00	4,240.00	4,240.00	4,240.00	+10.00	1,200.00	5,080.00	Nikkei 225	12,500.00	12,450.00	12,450.00	12,450.00	+50.00	1,500.00	18,750.00	ASX 200	3,200.00	3,150.00	3,150.00	3,150.00	+50.00	500.00	1,600.00	FTSE 250	1,200.00	1,150.00	1,150.00	1,150.00	+50.00
ASIA (Nov 2 / Fri)																													
Hong Kong	12,500.00	12,450.00	12,450.00	12,450.00	+50.00	1,500.00	18,750.00	India	1,200.00	1,150.00	1,150.00	1,150.00	+50.00	500.00	1,600.00	South Africa	10,000.00	9,950.00	9,950.00	9,950.00	+50.00	1,000.00	10,000.00	FTSE 100	4,250.00	4,240.00	4,240.00	4,240.00	+10.00
AFRICA (Nov 2 / Fri)																													
FTSE 100	4,250.00	4,240.00	4,240.00	4,240.00	+10.00	1,200.00	5,080.00	Nikkei 225	12,500.00	12,450.00	12,450.00	12,450.00	+50.00	1,500.00	18,750.00	ASX 200	3,200.00	3,150.00	3,150.00	3,150.00	+50.00	500.00	1,600.00	FTSE 250	1,200.00	1,150.00	1,150.00	1,150.00	+50.00

INDICES										US INDICES										STOCKS									
Nov 2 / Fri										Nov 2 / Fri										Nov 2 / Fri									
Index	High	Low	Open	Close	Change	Volume	Value	Index	High	Low	Open	Close	Change	Volume	Value	Index	High	Low	Open	Close	Change	Volume	Value	Index	High	Low	Open	Close	Change
INDICES (Nov 2 / Fri)																													
FTSE 100	4,250.00	4,240.00	4,240.00	4,240.00	+10.00	1,200.00	5,080.00	Nikkei 225	12,500.00	12,450.00	12,450.00	12,450.00	+50.00	1,500.00	18,750.00	ASX 200	3,200.00	3,150.00	3,150.00	3,150.00	+50.00	500.00	1,600.00	FTSE 250	1,200.00	1,150.00	1,150.00	1,150.00	+50.00
US INDICES (Nov 2 / Fri)																													
Dow Jones	8,500.00	8,450.00	8,450.00	8,450.00	+50.00	1,500.00	18,750.00	S&P 500	1,200.00	1,150.00	1,150.00	1,150.00	+50.00	500.00	1,600.00	FTSE 100	4,250.00	4,240.00	4,240.00	4,240.00	+10.00	1,200.00	5,080.00	Nikkei 225	12,500.00	12,450.00	12,450.00	12,450.00	+50.00
STOCKS (Nov 2 / Fri)																													
IBM	120.00	115.00	115.00	115.00	+5.00	1,000.00	120.00	Microsoft	40.00	35.00	35.00	35.00	+5.00	1,000.00	40.00	Amazon	1.00	0.50	0.50	0.50	+0.50	1,000.00	1.00	Oracle	20.00	15.00	15.00	15.00	+5.00

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7	84	7	84
20	204	20	204
11	114	11	114
4	44	4	44
21	214	21	214
2	22	2	22
13	134	13	134
6	64	6	64
15	154	15	154
3	34	3	34
12	124	12	124
5	54	5	54
14	144	14	144
8	84	8	84
16	164	16	164
9	94	9	94
17	174	17	174
10	104	10	104
18	184	18	184
1	14	1	14
19	194	19	194
22	224	22	224
23	234	23	234
24	244	24	244
25	254	25	254

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